

With Abundant Experience and Expertise

**Raito Kogyo Co., Ltd.**  
**ANNUAL REPORT 2012**  
YEAR ENDED MARCH 31, 2012



## ● PROFILE & CONTENTS

As a specialist civil engineering contractor, Raito Kogyo Co., Ltd. has continued to significantly contribute to society since its establishment in 1943 by actively promoting the development and introduction of proprietary technologies and supporting efforts to enhance national disaster-prevention and infrastructure development.

Amid a construction industry experiencing considerable change throughout its operating environment, the Company draws on its abundant technological capabilities fostered over many years to bolster its operating structure and systems across its three core businesses encompassing specialist civil engineering, building construction and overseas businesses while enhancing project safety and quality. Working in harmony with the natural environment, Raito Kogyo will help protect the nation from disaster and contribute in the building of a robust nation that offers a strong sense of safety and security.

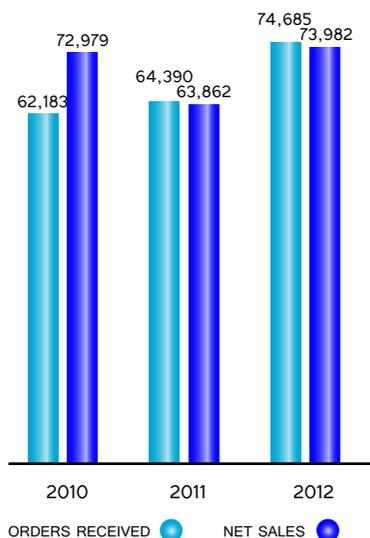
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# CONSOLIDATED FINANCIAL HIGHLIGHTS

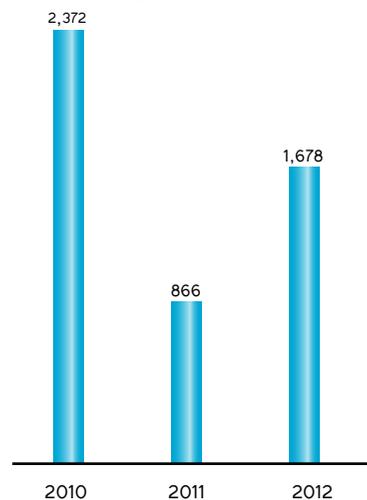
|                                   | Millions of yen |         |         |          |         |         | Thousands of U.S. dollars |
|-----------------------------------|-----------------|---------|---------|----------|---------|---------|---------------------------|
|                                   | 2012            | 2011    | 2010    | 2009     | 2008    | 2007    | 2012                      |
| <b>FOR THE YEAR:</b>              |                 |         |         |          |         |         |                           |
| Orders received                   | <b>¥74,685</b>  | ¥64,390 | ¥62,183 | ¥68,237  | ¥67,742 | ¥64,955 |                           |
| Net sales                         | <b>73,982</b>   | 63,862  | 72,979  | 63,063   | 66,408  | 66,648  | <b>\$900,794</b>          |
| Income (loss) from operations     | <b>2,255</b>    | 1,182   | 3,373   | (1,728)  | 111     | 1,093   | <b>27,458</b>             |
| Income (loss) before income taxes | <b>2,108</b>    | 985     | 2,575   | (3,895)  | (60)    | 1,249   | <b>25,677</b>             |
| Net income (loss)                 | <b>1,678</b>    | 866     | 2,372   | (5,470)  | (333)   | 1,181   | <b>20,440</b>             |
| <b>AT YEAR-END:</b>               |                 |         |         |          |         |         |                           |
| Total assets                      | <b>58,370</b>   | 57,086  | 58,153  | 64,953   | 66,280  | 66,908  | <b>710,708</b>            |
| Shareholders' equity              | <b>31,137</b>   | 29,627  | 29,605  | 27,016   | 33,676  | 35,339  | <b>379,122</b>            |
| Common stock                      | <b>6,119</b>    | 6,119   | 6,119   | 6,119    | 6,119   | 6,119   | <b>74,509</b>             |
| <b>AMOUNTS PER SHARE:</b>         |                 |         |         |          |         |         |                           |
| (in yen and dollars)              |                 |         |         |          |         |         |                           |
| Net income (loss)                 | <b>31.88</b>    | 16.45   | 45.06   | (103.86) | (6.32)  | 22.43   |                           |
| Shareholders' equity              | <b>591.27</b>   | 562.59  | 562.16  | 512.99   | 639.43  | 670.98  |                           |
| <b>PERFORMANCE INDICATORS:</b>    |                 |         |         |          |         |         |                           |
| (%)                               |                 |         |         |          |         |         |                           |
| Equity capital ratio              | <b>53.3</b>     | 51.9    | 50.9    | 41.6     | 50.8    | 52.8    | —                         |
| Return on equity                  | <b>5.4</b>      | 2.9     | 8.4     | —        | —       | 3.4     | —                         |
| Number of employees               | <b>1,057</b>    | 1,081   | 1,114   | 1,103    | 1,120   | 1,129   | —                         |

Note: U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥82.13=US\$1.00, the rate on March 31, 2012 for the readers' convenience only.

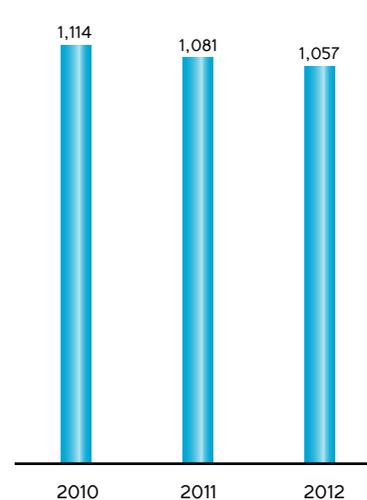
**ORDERS RECEIVED, NET SALES**  
(Millions of yen)



**NET INCOME**  
(Millions of yen)



**NUMBER OF EMPLOYEES**



## ● PRESIDENT'S MESSAGE



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### OPERATING PERFORMANCE

In fiscal 2011, the fiscal year ended March 31, 2012, the Japanese economy continued to confront harsh operating conditions. Despite a recovery in disruptions to the supply chain caused by the Great East Japan Earthquake and a favorable turnaround in corporate sector production and export activities, this difficult business environment was mainly attributable to a slowdown in overseas economies owing to the debt crisis in Europe, prolonged appreciation in the value of the yen and persistently weak stock prices.

In the construction industry, private-sector investment witnessed signs of a partial recovery. Public-sector construction investment was also buoyed by restoration and reconstruction activity following the earthquake disaster. In overall terms, however, the operating environment remained difficult with generally soft trends across all other regions.

Under these circumstances, the Raito Kogyo Group's orders received for the fiscal year under review increased on the back of restoration demand following the Great East Japan Earthquake. With steady progress in construction activities, net sales for the period also improved 15.8% compared with the previous fiscal year to ¥73,982 million.

From a profit perspective, gross profit climbed 8.6% year on year to ¥10,187 million largely reflecting the upswing in net sales. In addition to this improvement in gross profit, successful efforts to cutback fixed expenses and the decline in selling, general and administrative expenses contributed to robust earnings. As a result, operating income surged 90.7% compared with the previous fiscal year to ¥2,255 million, and ordinary profit jumped 94.6% year on year to ¥2,280 million. Net income for fiscal 2011 came to ¥1,678 million, up 93.8% compared with fiscal 2010.

## BUSINESS SEGMENT REVIEW

Consolidated sales in the construction segment, which is the core business of the Raito Kogyo Group, increased by 16.0% compared with the previous fiscal year to ¥73,377 million.

Orders received in this segment climbed by 16.0% year on year to ¥74,685 million. By type of construction method, orders received for slope protection work climbed 12.3% compared with the previous fiscal year to ¥28,897 million. This largely reflected restoration-related construction demand following the Great East Japan Earthquake and large-scale construction orders from the private sector. Ground improvement projects attracted an increase of 6.6% in orders received year on year to ¥22,735 million. Despite a downturn in ground improvement project orders at the Group's U.S.-based local subsidiary, this positive result was again mainly due to restoration-related construction demand following the earthquake disaster and higher orders from the private sector. In structural repair work, conditions were depressed due to the drop in orders received for bridge maintenance and repair construction from Japan's Ministry of Land, Infrastructure, Transport and Tourism. In overall terms, orders received contracted 36.6% compared with the previous fiscal year to ¥2,038 million. Projects to address soil and water contamination similarly declined owing primarily to a downturn in private-sector capital investment resulting in a drop in soil remediation activity. On this basis, orders received for soil and water decontamination projects fell 39.5% year on year to ¥820 million. Buffeted by the drop in new sewage line construction order from regional public authorities, orders received for construction work on sewage mains and other public utility conduits declined by 11.8% year on year to ¥880 million. Turning to the building construction segment, orders received for condominium construction in the Tokyo Metropolitan area remained steady. Favored by positive trends in new building construction as well as repair work in the aftermath of the Great East Japan Earthquake, orders received surged 67.6% compared with the previous fiscal year to ¥13,084 million. In general civil engineering works and other projects, the earthquake disaster triggered orders for debris removal work. This in turn contributed to a substantial rise in orders received, up 57.9% year on year to ¥6,228 million.

## MEDIUM-TERM BUSINESS STRATEGY AND RELATED ISSUES

Under these circumstances, the Raito Kogyo Group is shifting management resources to the Tohoku area of Japan in an effort to bolster its capabilities in the area and to address robust demand in the specialist civil engineering field following the earthquake disaster.

In addition, we are endeavoring to address the following issues in efforts to secure adequate business volumes across the Group and to improve our earning capabilities.

### STRICTLY ADHERE TO SAFETY AND HEALTH MANAGEMENT

The Raito Kogyo Group will endeavor to further enhance its safety and health management in efforts to eliminate accidents. By strictly adhering to this principle and garnering the increased trust of our customers, we will work diligently toward enhancing corporate value.

### STRENGTHEN THE GROUP'S MANAGEMENT STRUCTURE IN THE SPECIALIZED CIVIL ENGINEERING FIELD

Moving forward, the Group will work to bolster its operating platform and secure business volume by ramping up the

sales and marketing activities of subsidiary companies deeply rooted in each local community and adhering strictly to a policy of cost reduction.

#### EXPAND THE BUSINESS SCALE OF ACTIVITIES IN THE BUILDING CONSTRUCTION AND OVERSEAS BUSINESS SEGMENTS

Positioning relevant and appropriate risk management at the head of building construction activities, the Raito Kogyo Group will cultivate new customers in an effort to expand its business scale. We will upgrade and expand our overseas market and risk analysis activities in each region while at the same time increasing the number of personnel assigned to mainstay markets. Through these and other means, we will increase the volume of business in our overseas operations.

#### BOLSTER OUR FINANCIAL POSITION

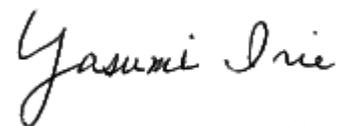
Placing the utmost emphasis on profitability in the conduct of our sales and marketing activities, we plan to bolster our earning capabilities. At the same time, we will look to lift claim collection rates to secure adequate cash flow and promote asset efficiency through effective investment in machinery assets and rationalization of idle assets. On this basis, the Raito Kogyo Group will build a robust financial position.

#### OUTLOOK

In fiscal 2012, the fiscal year ending March 31, 2013, the operating environment in the construction industry is projected to remain difficult. Despite the full-fledged pickup in earthquake disaster-related reconstruction demand, forecast harsh business conditions are attributable to continued weak demand in other regions as well as intensifying competition. Against this backdrop, the Raito Kogyo Group will continue to shift management resources to the Tohoku area in its specialist civil engineering activities in an effort to capture reconstruction demand following the earthquake disaster. At the same time, each subsidiary will focus on boosting sales and marketing activities that are tailored to each region with the aim of securing business volume. Moreover, by adopting a selective approach toward orders and redoubling efforts to cutback costs while reducing overheads, the Group will work diligently to secure earnings.

Taking each of the aforementioned into consideration, the Raito Kogyo Group is forecasting consolidated net sales of ¥73,500 million in fiscal 2012. On the earnings front, operating income, ordinary profit and net income are estimated to reach ¥1,650 million, ¥1,650 million and ¥1,100 million, respectively.

August 2012



Yasumi Irie  
President

## FUNDAMENTAL POLICY

The Raito Kogyo Group fundamental policy on corporate governance places the utmost emphasis on maintaining a sound management structure and associated systems. In this manner, the Group is better positioned to bring to fruition its corporate philosophy of enhancing the prosperity of all stakeholders including customers, shareholders and employees.

## CORPORATE GOVERNANCE FRAMEWORK

### Management Structure and Oversight/supervisory Systems

Raito Kogyo maintains a Board of Directors comprised of 10 members, one of whom is appointed from outside the Company. At the same time, Raito Kogyo has established a three-member Board of Corporate Auditors, two of whom are appointed from outside the Company. In principle, the Board of Directors meets once a month. Special meetings of the Board of Directors are held, however, as and when required. In addition to its role as the ultimate decision-making authority for the Company, the Board of Directors also monitors and supervises management while overseeing the status of business execution by each director.

At the time Board of Directors' meetings are held, the representative director and outside director also engage in roundtable discussions to promote the open and free exchange of opinions. Through these and other means, steps are taken to enhance the objectivity of management decisions and to bolster the monitoring function.

Raito Kogyo has adopted a corporate auditor system. In addition to establishing a three-member Board of Corporate Auditors, this system ensures that 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. There are no vested interests of any note between Raito Kogyo and its independent auditor, or with the officers of the independent auditor who conduct the Company's audit.

Raito Kogyo ensures the integrity of its internal control system

through the aforementioned structure and systems.

## 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

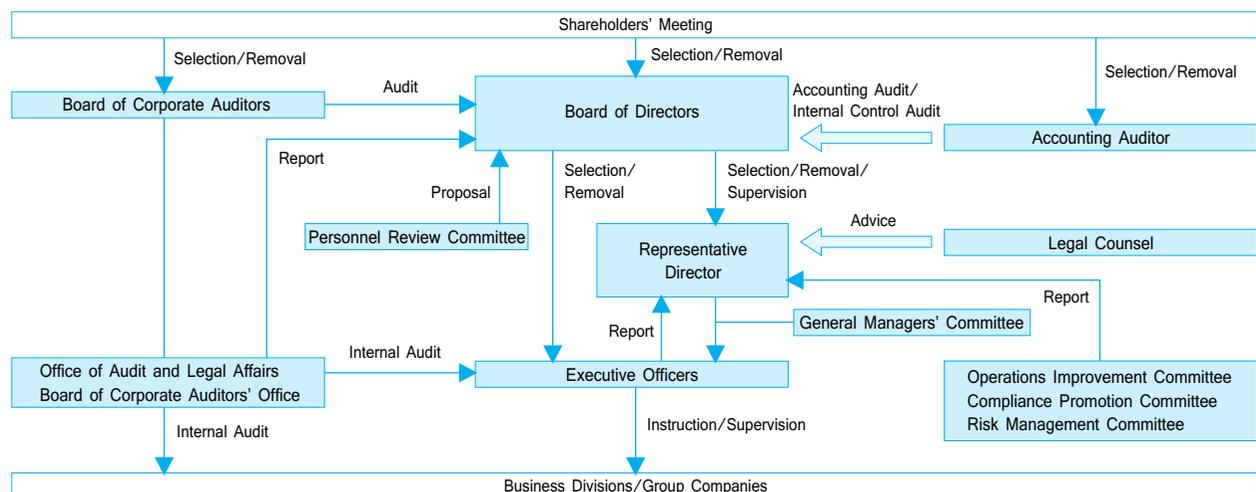
Raito Kogyo recognizes the importance of early disclosure of all relevant information to investors relating to financial results and performance. The Corporate Planning Department oversees the implementation of various IR activities, including financial results announcements, investor presentations and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

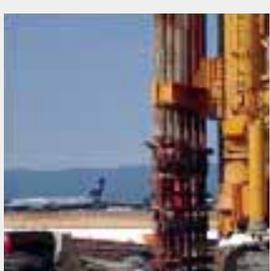
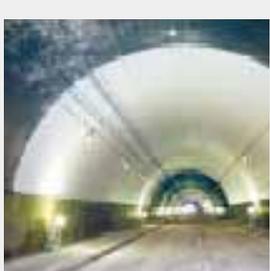
## RISK MANAGEMENT SYSTEM

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

## INTERNAL AUDITS

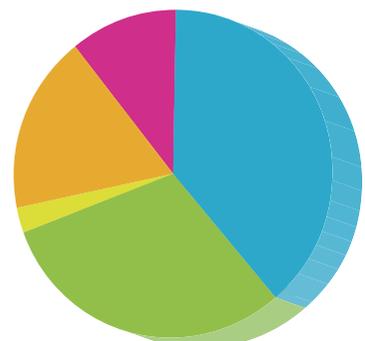
The Internal Audit Office, which comprised three members of staff, fulfills various internal audit functions. Based on annual auditing plans, it reviews the soundness of executive actions and business activities. Internal audit results are reported to the corporate auditors and to the president.



|   |   |
|---|---|
|    | <p>● <b>SLOPE PROTECTION PROJECTS</b></p> <p>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 ¥28,897 million and segment revenues from completed projects amounted to ¥28,752 million.</p>  |
|    | <p>● <b>GROUND IMPROVEMENT PROJECTS</b></p> <p>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 ¥22,735 million, while segment revenues from completed projects were ¥22,762 million.</p>  |
|   | <p>● <b>STRUCTURAL REPAIR PROJECTS</b></p> <p>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 ¥2,038 million. Segment revenues from completed projects were ¥2,715 million.</p>   |
|  | <p>● <b>BUILDING CONSTRUCTION PROJECTS</b></p> <p>Through its building construction projects, the Company is largely engaged in the construction of condominiums. Raito Kogyo is particularly well versed in the construction of special-purpose condominiums, including those used by the elderly, as well as one-room condominiums for the singles demographic. Sales in both of these areas continue to expand. Orders received during the fiscal year under review totaled ¥13,084 million, while segment revenues from completed projects amounted to ¥10,615 million.</p> |
|  | <p>● <b>OTHERS</b></p> <p>In addition to anti-pollution projects, this segment 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 ¥7,927 million and segment revenues from completed projects amounted to ¥9,134 million.</p>   |

**ORDERS RECEIVED BY TIP OF WORK (%)**

- Slope Protection Projects ● 38.7
- Ground Improvement Projects ● 30.4
- Structural Repair Projects ● 2.7
- Building Construction Projects ● 17.5
- Others ● 10.6



## ● 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 ¥177 million.

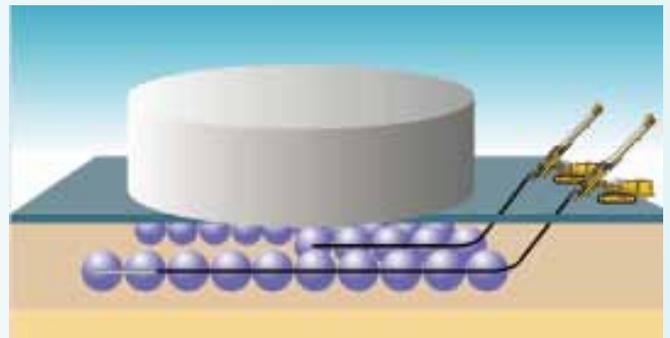
### ANTI-LIQUEFACTION AND EARTHQUAKE-RESISTANT SOIL TREATMENT

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.



### 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.



## GROUND IMPROVEMENT

Raito Kogyo has been a major player also in the ground improvement field in Japan and the U.S. The soft ground is improved to resist settlement and deformation by applying various technologies such as chemical grouting, jet grouting, shallow and deep soil mixing. Raito has capabilities to apply all these technologies so that the most efficient technology is proposed to address unique site and ground conditions as well as client needs. Raito Kogyo has continuously upgraded these technologies to widen the range of application and improve cost efficiency.



## ● CONSTRUCTION RESULTS

|  |   |  |
|--|---|--|
| <p><b>Project:</b></p> <p>Ground improvement works for the construction of Sagami Kenodo Highway</p>       |    | <p><b>Owner:</b><br/>Ministry of Land, Infrastructure, Transport and Tourism, Kanto Regional Development Bureau<br/><b>Client:</b><br/>Hazama Corporation</p> <p><b>Duration:</b><br/>August 2010 to December 2011</p> |
| <p><b>Project:</b></p> <p>Landslide prevention and slope protection works for the Second Tomei Highway</p> |    | <p><b>Owner:</b><br/>Central Nippon Expressway Company Limited</p> <p><b>Duration:</b><br/>September 2010 to March 2012</p>  |
| <p><b>Project:</b></p> <p>Repair and maintenance works for the Fukaura Bridge, National Highway 9.</p>     |   | <p><b>Owner:</b><br/>Ministry of Land, Infrastructure, Transport and Tourism, Chugoku Regional Development Bureau</p> <p><b>Duration:</b><br/>November 2010 to June 2011</p>   |
| <p><b>Project:</b></p> <p>Construction of a residential building, Tokyo</p>                                |  | <p><b>Owner:</b><br/>K.K.CLEARHLIFE</p> <p><b>Duration:</b><br/>December 2009 to June 2011</p>   |
| <p><b>Project:</b></p> <p>Levee Improvement Program EIP-Rivers Phase 1 Site</p>                            |  | <p><b>Owner:</b><br/>West Sacramento Area Flood Control Agency</p> <p><b>Duration:</b><br/>July 2011 to October 2011</p>   |

# CONSOLIDATED BALANCE SHEETS

| March 31, 2012 and 2011  | Millions of yen |          | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|----------|---------------------------------------|
|  | 2012            | 2011     | 2012                                  |
| <b>ASSETS</b>  |                 |          |                                       |
| <b>Current assets:</b>   |                 |          |                                       |
| Cash and time deposits (Note 3)  | ¥ 9,562         | ¥ 9,158  | \$ 116,437                            |
| Notes and accounts receivable — trade                                      | 21,162          | 19,804   | 257,668                               |
| Accumulated construction cost in progress (Note 4)                         | 6,512           | 7,830    | 79,293                                |
| Merchandise and finished goods (Note 4)                                    | 29              | 24       | 362                                   |
| Work in process (Note 4)   | 18              | 19       | 226                                   |
| Raw materials and supplies (Note 4)  | 141             | 183      | 1,724                                 |
| Accounts receivable — other  | 320             | 780      | 3,907                                 |
| Other current assets   | 916             | 555      | 11,160                                |
| Allowance for doubtful accounts  | (173)           | (302)    | (2,117)                               |
| Total current assets   | 38,491          | 38,053   | 468,662                               |
| <b>Fixed assets:</b>   |                 |          |                                       |
| <b>Property and equipment</b>  |                 |          |                                       |
| Buildings and structures   | 8,415           | 8,878    | 102,464                               |
| Accumulated depreciation   | (6,132)         | (6,299)  | (74,666)                              |
| Buildings and structures, net (Note 10)                                    | 2,283           | 2,579    | 27,797                                |
| Machinery, vehicles and equipment  | 21,049          | 21,990   | 256,292                               |
| Accumulated depreciation   | (20,408)        | (21,098) | (248,496)                             |
| Machinery, vehicles and equipment, net                                     | 640             | 891      | 7,796                                 |
| Land (Notes 7 and 10)  | 9,116           | 9,251    | 110,999                               |
| Lease assets (Note 15)   | 1,514           | 1,259    | 18,440                                |
| Accumulated depreciation   | (419)           | (191)    | (5,111)                               |
| Lease assets, net  | 1,094           | 1,068    | 13,328                                |
| Construction in progress   | 42              | 1        | 523                                   |
| Total property and equipment   | 13,177          | 13,791   | 160,445                               |
| <b>Intangible assets</b>   |                 |          |                                       |
| Other  | 172             | 207      | 2,103                                 |
| Total intangible assets  | 172             | 207      | 2,103                                 |
| <b>Investments and other assets:</b>                                       |                 |          |                                       |
| Investment in securities (Notes 5 and 8)                                   | 2,884           | 2,915    | 35,118                                |
| Long-term prepaid expenses   | 524             | 503      | 6,389                                 |
| Claims provable in bankruptcy, claims provable in rehabilitation and other | 202             | 217      | 2,465                                 |
| Real estate for investment   | 1,889           | 485      | 23,004                                |
| Others   | 1,624           | 1,110    | 19,774                                |
| Allowance for doubtful accounts  | (595)           | (198)    | (7,256)                               |
| Total investments and other assets   | 6,529           | 5,033    | 79,496                                |
| Total fixed assets   | 19,879          | 19,032   | 242,045                               |
| Total assets   | ¥ 58,370        | ¥ 57,086 | \$ 710,708                            |

The accompanying notes are an integral part of this statement.

| March 31, 2012 and 2011                                | Millions of yen |         | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|---------|---------------------------------------|
|  | 2012            | 2011    | 2012                                  |
| <b>LIABILITIES</b>                                     |                 |         |                                       |
| <b>Current liabilities:</b>                            |                 |         |                                       |
| Notes and accounts payable — trade                     | ¥15,583         | ¥14,784 | \$189,745                             |
| Short-term bank loans payable (Note 10)                | 500             | 100     | 6,087                                 |
| Current portion of long-term loans payable (Note 10)   | 453             | 466     | 5,521                                 |
| Accrued income taxes                                   | 489             | 163     | 5,959                                 |
| Advance received on uncompleted contracts              | 4,203           | 5,513   | 51,184                                |
| Provision for warranties for completed construction    | 78              | 99      | 958                                   |
| Allowance for anticipated loss on contract work        | 114             | 123     | 1,391                                 |
| Provision for losses attributable to disasters         | 64              | 133     | 786                                   |
| Accrued expenses                                       | 1,184           | 966     | 14,428                                |
| Other current liabilities                              | 933             | 994     | 11,366                                |
| Total current liabilities                              | 23,606          | 23,345  | 287,429                               |
| <b>Non-current liabilities:</b>                        |                 |         |                                       |
| Long-term loans payable (Note 10)                      | 890             | 1,343   | 10,836                                |
| Deferred tax liabilities for land revaluation (Note 7) | 1,217           | 1,393   | 14,829                                |
| Reserve for retirement benefits (Note 11)              | 626             | 479     | 7,629                                 |
| Long-term accrued amount payable                       | 27              | 6       | 334                                   |
| Lease obligations (Note 15)                            | 805             | 832     | 9,804                                 |
| Deferred tax liabilities (Note 17)                     | 12              | 13      | 152                                   |
| Other non-current liabilities                          | 46              | 45      | 568                                   |
| Total non-current liabilities                          | 3,626           | 4,113   | 44,155                                |
| Total liabilities                                      | 27,233          | 27,459  | 331,585                               |
| <b>NET ASSETS</b>                                      |                 |         |                                       |
| <b>Shareholders' equity:</b>                           |                 |         |                                       |
| Capital stock  | 6,119           | 6,119   | 74,509                                |
| Capital surplus  | 6,358           | 6,358   | 77,415                                |
| Retained earnings                                      | 21,303          | 20,038  | 259,392                               |
| Treasury stock (Note 12)                               | (1,698)         | (1,698) | (20,681)                              |
| Total shareholders' equity (Note 13)                   | 32,082          | 30,818  | 390,635                               |
| <b>Other accumulated comprehensive income:</b>         |                 |         |                                       |
| Valuation difference on available-for-sale securities  | (126)           | (221)   | (1,535)                               |
| Revaluation reserve for land (Note 7)                  | (717)           | (880)   | (8,734)                               |
| Foreign currency translation adjustment                | (102)           | (88)    | (1,243)                               |
| Total other accumulated comprehensive income           | (945)           | (1,190) | (11,513)                              |
| Total net assets                                       | 31,137          | 29,627  | 379,122                               |
| Total liabilities and net assets                       | ¥58,370         | ¥57,086 | \$710,708                             |

The accompanying notes are an integral part of this statement.

# CONSOLIDATED STATEMENTS OF OPERATIONS

| For the years ended March 31, 2012 and 2011                | Millions of yen |         | Thousands of<br>U.S. dollars (Note 1) |
|--|-----------------|---------|---------------------------------------|
|  | 2012            | 2011    | 2012                                  |
| <b>Net sales:</b>  |                 |         |                                       |
| Net sales of completed construction contracts              | ¥73,377         | ¥63,258 | \$893,433                             |
| Net sales of goods   | 604             | 603     | 7,361                                 |
| Total net sales  | 73,982          | 63,862  | 900,794                               |
| <b>Cost of sales:</b>                                      |                 |         |                                       |
| Cost of sales of completed construction contracts          | 63,288          | 53,984  | 770,591                               |
| Cost of goods sold   | 506             | 493     | 6,166                                 |
| Total cost of sales  | 63,795          | 54,478  | 776,757                               |
| <b>Gross profit:</b>                                       |                 |         |                                       |
| Gross profit of completed construction contracts           | 10,088          | 9,274   | 122,841                               |
| Gross profit-merchandise                                   | 98              | 109     | 1,195                                 |
| Total gross profit   | 10,187          | 9,383   | 124,036                               |
| <b>Selling, general and administrative expenses</b>        | 7,931           | 8,201   | 96,578                                |
| <b>Operating income</b>                                    | 2,255           | 1,182   | 27,458                                |
| <b>Non-operating income:</b>                               |                 |         |                                       |
| Interest income  | 26              | 8       | 327                                   |
| Dividends income   | 38              | 72      | 465                                   |
| Royalty income   | 17              | 17      | 211                                   |
| Insurance premiums refunded cancellation                   | 1               | 2       | 20                                    |
| Rent income on noncurrent assets                           | 52              | 50      | 643                                   |
| Amortization of negative goodwill                          | —               | 3       | —                                     |
| Other  | 73              | 62      | 898                                   |
| Total non-operating income                                 | 210             | 216     | 2,567                                 |
| <b>Non-operating expenses:</b>                             |                 |         |                                       |
| Interest expenses  | 35              | 33      | 436                                   |
| Loss on sales of notes payable                             | 6               | 5       | 79                                    |
| Commission fee   | 42              | 31      | 513                                   |
| Guarantee commission                                       | 8               | 7       | 106                                   |
| Foreign exchange losses                                    | —               | 71      | —                                     |
| Litigation settlement                                      | —               | 36      | —                                     |
| Settlement package   | 46              | —       | 566                                   |
| Other  | 45              | 41      | 555                                   |
| Total non-operating expenses                               | 185             | 227     | 2,257                                 |
| <b>Ordinary income</b>                                     | 2,280           | 1,171   | 27,768                                |
| <b>Extraordinary income:</b>                               |                 |         |                                       |
| Gain on prior period adjustment                            | —               | 2       | —                                     |
| Gain on disposal of non-current assets                     | 130             | 13      | 1,587                                 |
| Gain on sales of investment securities                     | 28              | 113     | 349                                   |
| Gain from forgiveness of liabilities                       | —               | 138     | —                                     |
| Gain on transfer of business                               | 42              | —       | 517                                   |
| Other  | 5               | 13      | 64                                    |
| Total extraordinary income                                 | 206             | 282     | 2,519                                 |
| <b>Extraordinary loss:</b>                                 |                 |         |                                       |
| Loss on sales and retirement of non-current assets         | 36              | 26      | 440                                   |
| Loss on valuation of membership                            | 9               | 2       | 121                                   |
| Special extra retirement payments                          | 22              | 35      | 278                                   |
| Loss on sales of investment securities                     | —               | 0       | —                                     |
| Loss on valuation of investments securities                | 97              | 5       | 1,192                                 |
| Impairment loss  | 42              | 201     | 523                                   |
| Loss on valuation of stocks of subsidiaries and affiliates | 100             | —       | 1,217                                 |
| Compensation for damages                                   | 59              | —       | 729                                   |
| Losses attributable to disasters                           | 8               | 196     | 102                                   |
| Other  | 0               | 0       | 3                                     |
| Total extraordinary loss                                   | 378             | 468     | 4,610                                 |
| <b>Income before income taxes</b>                          | 2,108           | 985     | 25,677                                |
| Income taxes-current                                       | 435             | 114     | 5,308                                 |
| Income taxes-deferred                                      | (5)             | 5       | (71)                                  |
| Total income taxes   | 430             | 119     | 5,237                                 |
| <b>Income before minority interests</b>                    | 1,678           | 866     | 20,440                                |
| <b>Net income</b>  | ¥ 1,678         | ¥ 866   | \$ 20,440                             |

The accompanying notes are an integral part of this statement.

## ● CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| For the years ended March 31, 2012 and 2011               | Millions of yen |       | Thousands of<br>U.S. dollars (Note 1) |
|---|-----------------|-------|---------------------------------------|
|   | 2012            | 2011  | 2012                                  |
| <b>Income before minority interests</b>                   | ¥1,678          | ¥ 866 | \$20,440                              |
| <b>Other comprehensive income:</b>                        |                 |       |                                       |
| Valuation difference on available-for-sale securities     | 95              | (306) | 1,164                                 |
| Revaluation reserve for land                              | 170             | —     | 2,075                                 |
| Foreign currency translation adjustment                   | (13)            | (116) | (160)                                 |
| Total other comprehensive income (Note 16)                | 252             | (422) | 3,079                                 |
| <b>Comprehensive income (Note 16):</b>                    | 1,931           | 443   | 23,519                                |
| (Breakdown)   |                 |       |                                       |
| Comprehensive income attributable to owners of the parent | 1,931           | 443   | 23,519                                |
| Comprehensive income attributable to minority interests   | ¥ —             | ¥ —   | \$ —                                  |

The accompanying notes are an integral part of this statement.

# CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

| For the years ended March 31, 2012 and 2011                   | Millions of yen |         | Thousands of<br>U.S. dollars (Note 1) |
|---|-----------------|---------|---------------------------------------|
|   | 2012            | 2011    | 2012                                  |
| <b>Shareholders' equity</b>                                   |                 |         |                                       |
| <b>Capital stock:</b>   |                 |         |                                       |
| Balance at beginning of the period                            | ¥ 6,119         | ¥ 6,119 | \$ 74,509                             |
| Changes of items during the period                            |                 |         |                                       |
| Total changes of items during the period                      | —               | —       | —                                     |
| Balance at end of the period                                  | 6,119           | 6,119   | 74,509                                |
| <b>Capital surplus:</b>                                       |                 |         |                                       |
| Balance at beginning of the period                            | 6,358           | 6,358   | 77,415                                |
| Changes of items during the period                            |                 |         |                                       |
| Total changes of items during the period                      | —               | —       | —                                     |
| Balance at end of the period                                  | 6,358           | 6,358   | 77,415                                |
| <b>Retained earnings:</b>                                     |                 |         |                                       |
| Balance at beginning of the period                            | 20,038          | 19,593  | 243,989                               |
| Changes of items during the period                            |                 |         |                                       |
| Cash dividends  | (421)           | (421)   | (5,129)                               |
| Net income  | 1,678           | 866     | 20,440                                |
| Reversal of revaluation reserve for land                      | 7               | —       | 92                                    |
| Total changes of items during the period                      | 1,265           | 444     | 15,402                                |
| Balance at end of the period                                  | 21,303          | 20,038  | 259,392                               |
| <b>Treasury stock:</b>  |                 |         |                                       |
| Balance at beginning of the period                            | (1,698)         | (1,698) | (20,679)                              |
| Changes of items during the period                            |                 |         |                                       |
| Increase in treasury stock                                    | (0)             | (0)     | (1)                                   |
| Total changes of items during the period                      | (0)             | (0)     | (1)                                   |
| Balance at end of the period                                  | (1,698)         | (1,698) | (20,681)                              |
| <b>Total shareholders' equity</b>                             |                 |         |                                       |
| Balance at beginning of the period                            | 30,818          | 30,373  | 375,234                               |
| Changes of items during the period                            |                 |         |                                       |
| Cash dividends  | (421)           | (421)   | (5,129)                               |
| Net income  | 1,678           | 866     | 20,440                                |
| Increase in treasury stock                                    | (0)             | (0)     | (1)                                   |
| Reversal of revaluation reserve for land                      | 7               | —       | 92                                    |
| Total changes of items during the period                      | 1,264           | 444     | 15,401                                |
| Balance at end of the period                                  | 32,082          | 30,818  | 390,635                               |
| <b>Other accumulated comprehensive income</b>                 |                 |         |                                       |
| <b>Valuation difference on available-for-sale securities:</b> |                 |         |                                       |
| Balance at beginning of the period                            | (221)           | 84      | (2,700)                               |
| Changes of items during the period                            |                 |         |                                       |
| Net changes of items other than shareholders' equity          | 95              | (306)   | 1,164                                 |
| Total changes of items during the period                      | 95              | (306)   | 1,164                                 |
| Balance at end of the period                                  | (126)           | (221)   | (1,535)                               |
| <b>Revaluation reserve for land:</b>                          |                 |         |                                       |
| Balance at beginning of the period                            | (880)           | (880)   | (10,717)                              |
| Changes of items during the period                            |                 |         |                                       |
| Net changes of items other than shareholders' equity          | 162             | —       | 1,983                                 |
| Total changes of items during the period                      | 162             | —       | 1,983                                 |
| Balance at end of the period                                  | (717)           | (880)   | (8,734)                               |
| <b>Foreign currency translation adjustment:</b>               |                 |         |                                       |
| Balance at beginning of the period                            | (88)            | 27      | (1,082)                               |
| Changes of items during the period                            |                 |         |                                       |
| Net changes of items other than shareholders' equity          | (13)            | (116)   | (160)                                 |
| Total changes of items during the period                      | (13)            | (116)   | (160)                                 |
| Balance at end of the period                                  | (102)           | (88)    | (1,243)                               |
| <b>Total other accumulated comprehensive income</b>           |                 |         |                                       |
| Balance at beginning of the period                            | (1,190)         | (768)   | (14,500)                              |
| Changes of items during the period                            |                 |         |                                       |
| Net changes of items other than shareholders' equity          | 245             | (422)   | 2,987                                 |
| Total changes of items during the period                      | 245             | (422)   | 2,987                                 |
| Balance at end of the period                                  | (945)           | (1,190) | (11,513)                              |
| <b>Total net assets</b>                                       |                 |         |                                       |
| Balance at beginning of the period                            | 29,627          | 29,605  | 360,734                               |
| Changes of items during the period                            |                 |         |                                       |
| Dividends from surplus  | (421)           | (421)   | (5,129)                               |
| Net income  | 1,678           | 866     | 20,440                                |
| Purchase of treasury stock                                    | (0)             | (0)     | (1)                                   |
| Reversal of revaluation reserve for land                      | 7               | —       | 92                                    |
| Net changes of items other than shareholders' equity          | 245             | (422)   | 2,987                                 |
| Total changes of items during the period                      | 1,510           | 21      | 18,388                                |
| Balance at end of the period                                  | ¥31,137         | ¥29,627 | \$379,122                             |

The accompanying notes are an integral part of this statement.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended March 31, 2012 and 2011   | Millions of yen |         | Thousands of<br>U.S. dollars (Note 1) |
|---|-----------------|---------|---------------------------------------|
|   | 2012            | 2011    | 2012                                  |
| <b>Cash flows from operating activities</b>   |                 |         |                                       |
| Income before income taxes  | ¥ 2,108         | ¥ 985   | \$ 25,677                             |
| Adjustments to reconcile income before income taxes to net cash provided by operating activities: |                 |         |                                       |
| Depreciation and amortization   | 884             | 999     | 10,768                                |
| Amortization of negative goodwill   | —               | (3)     | —                                     |
| Impairment of fixed assets  | 42              | 201     | 523                                   |
| Increase (decrease) in allowance for doubtful accounts  | 268             | (593)   | 3,270                                 |
| Increase (decrease) in provision for warranties for completed construction                        | (20)            | (19)    | (249)                                 |
| Increase (decrease) in reserve for loss on construction contracts                                 | (9)             | (221)   | (116)                                 |
| Increase (decrease) in reserve for employees' retirement benefits                                 | 147             | 248     | 1,792                                 |
| Increase (decrease) in provision for losses attributable to disasters                             | (68)            | 133     | (838)                                 |
| Increase (decrease) in provision for loss on guarantees   | —               | (16)    | —                                     |
| Interest income and dividends received recognized on statement of income                          | (65)            | (81)    | (793)                                 |
| Interest payment recognized on statement of income  | 35              | 33      | 436                                   |
| Loss on sales of notes receivable-trade   | 6               | 5       | 79                                    |
| Loss (gain) on sales of investment securities   | (28)            | (113)   | (349)                                 |
| Loss (gain) on devaluation of investment securities   | 97              | 5       | 1,192                                 |
| Loss on valuation of stocks of subsidiaries and affiliates  | 100             | —       | 1,217                                 |
| Loss on valuation of membership   | 9               | 2       | 118                                   |
| Decrease (increase) in notes and accounts receivable  | (1,398)         | (1,160) | (17,024)                              |
| Decrease (increase) in accumulated construction cost in progress                                  | 1,318           | 3,002   | 16,049                                |
| Decrease (increase) in other inventories  | 36              | (6)     | 444                                   |
| Increase (decrease) in notes and accounts payable   | 800             | (273)   | 9,741                                 |
| Increase (decrease) in advance received on uncompleted contracts                                  | (1,308)         | (851)   | (15,932)                              |
| Others  | (219)           | (793)   | (2,676)                               |
| Subtotal  | 2,737           | 1,482   | 33,332                                |
| Interest income and dividend received (cash basis)  | 65              | 81      | 793                                   |
| Interest payment (cash basis)   | (35)            | (33)    | (436)                                 |
| Payments for sales of notes receivable-trade  | (6)             | (5)     | (79)                                  |
| Income taxes paid   | (134)           | (228)   | (1,634)                               |
| Net cash provided by operating activities   | 2,626           | 1,296   | 31,974                                |
| <b>Cash flows from investing activities</b>   |                 |         |                                       |
| Purchases of fixed assets   | (259)           | (357)   | (3,154)                               |
| Proceeds from sales of fixed assets   | 536             | 28      | 6,526                                 |
| Purchases of intangible assets  | (57)            | (73)    | (704)                                 |
| Purchases of investment securities  | (7)             | (1,041) | (88)                                  |
| Proceeds from sales of investment securities  | 51              | 1,206   | 630                                   |
| Payments of loans receivable from subsidiaries and affiliates                                     | (218)           | —       | (2,665)                               |
| Purchase of investments in subsidiaries   | (100)           | (200)   | (1,217)                               |
| Purchase of insurance funds   | (197)           | —       | (2,402)                               |
| Proceeds from cancellation of insurance funds   | 203             | 124     | 2,471                                 |
| Payments for investments in real estate   | (1,884)         | —       | (22,949)                              |
| Proceeds from sales of investments in real estates  | 481             | —       | 5,856                                 |
| Others  | (12)            | (47)    | (149)                                 |
| Net cash used in investing activities   | (1,466)         | (362)   | (17,851)                              |
| <b>Cash flows from financing activities</b>   |                 |         |                                       |
| Net increase (decrease) in short-term borrowing   | 400             | —       | 4,870                                 |
| Cash dividends paid   | (417)           | (419)   | (5,088)                               |
| Proceeds from long-term loans payable   | —               | 100     | —                                     |
| Repayment of long-term loans payable  | (466)           | (428)   | (5,673)                               |
| Proceeds from sale-and-leaseback transactions   | —               | 459     | —                                     |
| Repayments of finance lease obligations   | (266)           | (165)   | (3,244)                               |
| Purchases of treasury stock   | (0)             | (0)     | (1)                                   |
| Net cash used in financing activities   | (750)           | (453)   | (9,138)                               |
| Effect of exchange rate change on cash and cash equivalents                                       | (4)             | (44)    | (54)                                  |
| Net increase (decrease) in cash and cash equivalents  | 404             | 436     | 4,930                                 |
| Cash and cash equivalents at beginning of the year  | 9,058           | 8,621   | 110,288                               |
| Cash and cash equivalents at end of the year (Note 3)   | ¥ 9,462         | ¥ 9,058 | \$ 115,219                            |

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 the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company required by the Securities and Exchange Law of Japan.

The Company has adopted the Cabinet Office Ordinance Partially Revising Regulations for Terminology, Forms and the Presentation of Financial Statements (Cabinet Office Ordinance No. 5, issued on March 24, 2009) based on the Accounting Standard for Consolidated Financial Statements (Accounting Standards Board of Japan (ASBJ) Statement No. 22, issued on December 26, 2008), and accordingly presented the item "income before minority interests." In addition, the Company also adopted the Accounting Standard for the Presentation of Comprehensive Income (ASBJ Statement No. 25, issued on June 30, 2010).

The amounts are rounded to the nearest million yen. Therefore, total or subtotal amounts do not correspond with the aggregation of such account balances. 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 ¥82.13 = US\$1.00, which was the exchange rate prevailing at March 31, 2012.

## 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: RAITO, INC., ONORYO CO., LTD., AURA CE CO., LTD., HOKKAIDO REALIZE CO., LTD., MICHINOKU REALIZE CO., LTD., TOHOKU REALIZE CO., LTD., TOKAI REALIZE CO., LTD., KYUSYU REALIZE CO., LTD. and YASASHIITE 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 FUKUSHIMA REALIZE CO., LTD., NIIGATA REALIZE CO., LTD., YAMAGUCHI REALIZE CO., LTD., NISHINIHON REALIZE CO., LTD., SANYORYOKUKA CO., LTD., MARUKI KENSETSU CO., LTD., RAITO CARE CO., LTD., EDO ENTERPRISE 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 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) Fiscal year of consolidated subsidiaries

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

### b) Marketable securities and investments in securities

Marketable available-for-sale securities are carried at fair market value at the fiscal 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 based on the moving-average method.

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

### c) Inventories

Accumulated construction cost in progress is stated at cost determined by the identified cost method.

Merchandise and finished goods, work in progress and raw material and supplies (amounts reduced to their book value due to a decline in profitability) are stated at cost determined by the first-in, first-out method.

### d) Property and equipment depreciation

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 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 (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) Provision for warranties for completed construction**

A provision for warranties for completed construction is provided at an estimated future amount for the fiscal year under review to cover expenses relating to defects on completed construction.

**h) Allowance for anticipated loss on contract work**

Uncompleted construction expenditure relating to contract work where a loss is anticipated and the allowance for anticipated loss on contract work are posted separately and not offset. The allowance for anticipated loss on contract work applicable to uncompleted construction expenditure relating to contract work where a loss is anticipated amounts to ¥114 million.

**i) 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.

Actuarial gain or loss is amortized in the fiscal years 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 fiscal years of service of the eligible employees.

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 domestic consolidated subsidiary, ONORYO CO., LTD., however, posted 100% of the required benefit amount at the fiscal year-end calculated using the simplified method.

**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.

### 3. Cash and cash equivalents

Reconciliation between cash and time deposits and marketable securities on the consolidated balance sheets as of March 31, 2012 and 2011 and cash and cash equivalents at end of years on the statements of cash flows for the year ended March 31, 2012 and 2011 are as follows:

|   | Millions of yen |        | Thousands of U.S. dollars |
|---|-----------------|--------|---------------------------|
|   | 2012            | 2011   | 2012                      |
| Cash and time deposits on the consolidated balance sheets | ¥9,562          | ¥9,158 | \$116,437                 |
| Time deposits with terms exceeding 3 months               | (100)           | (100)  | (1,217)                   |
| Cash and cash equivalents on the statement of cash flows  | ¥9,462          | ¥9,058 | \$115,219                 |

### 4. Inventories

Inventories as of March 31, 2012 and 2011 comprised the following:

|  | Millions of yen |        | Thousands of U.S. dollars |
|--|-----------------|--------|---------------------------|
|  | 2012            | 2011   | 2012                      |
| Accumulated construction cost in progress                                      | ¥6,512          | ¥7,830 | \$79,293                  |
| Merchandise and finished goods, work in progress and raw material and supplies | 190             | 227    | 2,314                     |
|  | ¥6,702          | ¥8,057 | \$81,607                  |

### 5. Investment securities

Information on investment in securities of non-consolidated subsidiaries and affiliated companies as of March 31, 2012 and 2011 are presented as follows.

|                                   | Millions of yen |      | Thousands of U.S. dollars |
|-----------------------------------|-----------------|------|---------------------------|
|                                   | 2012            | 2011 | 2012                      |
| Investment in securities (shares) | ¥583            | ¥583 | \$7,103                   |

### 6. Notes receivable—trade

Information relating to the balances of discounted notes receivable and endorsed notes receivable as of March 31, 2012 and 2011 are presented as follows.

|                             | Millions of yen |        | Thousands of U.S. dollars |
|-----------------------------|-----------------|--------|---------------------------|
|                             | 2012            | 2011   | 2012                      |
| Discounted notes receivable | ¥1,811          | ¥1,852 | \$22,060                  |
| Endorsed notes receivable   | 7               | 20     | 89                        |

### 7. 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 own use 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, 2012, the carrying amount of the land after one-time revaluation exceeded the market value by ¥2,712 million (\$33,027 thousand).

## 8. Marketable securities and investment in securities

The market value of listed securities, which are classified as Marketable securities, as of March 31, 2012 and 2011, are as follows:

|                              | Millions of yen |                   |                        |
|------------------------------|-----------------|-------------------|------------------------|
|                              | Fair Value      |                   |                        |
|                              | Cost            | (Carrying Amount) | Unrealized Gain (Loss) |
| As of March 31, 2012         |                 |                   |                        |
| Marketable equity securities | ¥1,356          | ¥1,284            | ¥ (71)                 |
| Fund trust and other         | 1,014           | 959               | (54)                   |
|                              | ¥2,371          | ¥2,245            | ¥(126)                 |

|                              | Thousands of U.S. dollars |                   |                        |
|------------------------------|---------------------------|-------------------|------------------------|
|                              | Fair Value                |                   |                        |
|                              | Cost                      | (Carrying Amount) | Unrealized Gain (Loss) |
| As of March 31, 2012         |                           |                   |                        |
| Marketable equity securities | \$16,522                  | \$15,652          | \$ (869)               |
| Fund trust and other         | 12,353                    | 11,687            | (665)                  |
|                              | \$28,876                  | \$27,340          | \$(1,535)              |

|                              | Millions of yen |                   |                        |
|------------------------------|-----------------|-------------------|------------------------|
|                              | Fair Value      |                   |                        |
|                              | Cost            | (Carrying Amount) | Unrealized Gain (Loss) |
| As of March 31, 2011         |                 |                   |                        |
| Marketable equity securities | ¥1,468          | ¥1,312            | ¥(156)                 |
| Fund trust and other         | 1,019           | 952               | (66)                   |
|                              | ¥2,488          | ¥2,266            | ¥(221)                 |

## 9. Short-term bank loans payable

In order to ensure the efficient use and management of working capital, the Raito Kogyo Group has concluded overdraft and commitment lines of credit agreements with five banks. The total amount under overdraft and commitment lines of credit agreements as of the end of the fiscal year under review stood at ¥9,307 million.

## 10. Pledged assets and secured liabilities

Details of assets pledged as collateral as of March 31, 2012 and 2011 are presented as follows.

|           | Millions of yen |      | Thousands of U.S. dollars |
|-----------|-----------------|------|---------------------------|
|           | 2012            | 2011 | 2012                      |
| Buildings | ¥308            | ¥318 | \$3,750                   |
| Land      | 336             | 336  | 4,098                     |
| Total     | ¥644            | ¥654 | \$7,849                   |

Details of secured liabilities as of March 31, 2012 and 2011 are presented as follows.

|  | Millions of yen |      | Thousands of U.S. dollars |
|--|-----------------|------|---------------------------|
|  | 2012            | 2011 | 2012                      |
| Short-term bank loans payable              | ¥150            | ¥ —  | \$1,826                   |
| Current portion of long-term loans payable | 16              | 16   | 194                       |
| Long-term loans payable                    | 190             | 206  | 2,313                     |
| Total                                      | ¥356            | ¥222 | \$4,334                   |

## 11. Employees' retirement benefit and pension plan

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

The liability for employees' retirement benefits obligation at March 31, 2012 and 2011 consists of the followings;

|                                 | Millions of yen |          | Thousands of U.S. dollars |
|---------------------------------|-----------------|----------|---------------------------|
|                                 | 2012            | 2011     | 2012                      |
| Projected benefit obligation    | ¥(9,066)        | ¥(9,487) | \$(110,389)               |
| Plan assets at fair value       | 5,718           | 5,943    | 69,624                    |
| Retirement benefit trust        | 1,420           | 1,359    | 17,292                    |
| Unrecognized actuarial loss     | 1,855           | 2,353    | 22,586                    |
| Unrecognized prior service cost | (553)           | (649)    | (6,742)                   |
| Net liability                   | ¥ (626)         | ¥ (479)  | \$ (7,629)                |

The components of net periodic benefit costs for the year ended March 31, 2012 and 2011, are as follows;

|                                    | Millions of yen |       | Thousands of U.S. dollars |
|------------------------------------|-----------------|-------|---------------------------|
|                                    | 2012            | 2011  | 2012                      |
| Service cost                       | ¥ 376           | ¥ 370 | \$ 4,584                  |
| Interest cost                      | 186             | 197   | 2,271                     |
| Expected return on plan assets     | (118)           | (129) | (1,447)                   |
| Amortization of actuarial loss     | (95)            | (95)  | (1,166)                   |
| Amortization of prior service cost | 370             | 372   | 4,513                     |
| Net periodic benefit costs         | ¥ 719           | ¥ 715 | \$ 8,755                  |

Assumptions used for the year ended March 31, 2012 and 2011, are set forth as follows;

|  | 2012     | 2011     |
|--|----------|----------|
| Discount rate                              | 2.0%     | 2.0%     |
| Expected rate of return on plan assets     | 2.0%     | 2.0%     |
| Amortization period of actuarial gain/loss | 13 years | 13 years |
| Amortization period of prior service cost  | 13 years | 13 years |

## 12. Treasury stock

The Company holds 5,142,516 shares of treasury stock as of March 31, 2012.

## 13. Shareholders' equity

Dividends may be approved by the shareholders after the end of each fiscal period. In accordance with the Company Act of Japan, 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.

## 14. Contingent liabilities

The Company has provided guarantees to credit guaranty companies in connection with deposits received relating to the sale of houses and lots by the following company. Details as of March 31, 2012 and 2011 are presented as follows.

|                        | Millions of yen |      | Thousands of U.S. dollars |
|------------------------|-----------------|------|---------------------------|
|                        | 2012            | 2011 | 2012                      |
| Takara Leben Co., Ltd. | ¥118            | ¥301 | \$1,436                   |

The Company has provided guarantees to financial institutions for loans payable by the following company. Details as of March 31, 2012 and 2011 are presented as follows.

|                      | Millions of yen |      | Thousands of U.S. dollars |
|----------------------|-----------------|------|---------------------------|
|                      | 2012            | 2011 | 2012                      |
| Daikikosan Co., Ltd. | ¥9              | ¥—   | \$117                     |

## 15. 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, 2012 and 2011 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 |
|-------------------------------------|-----------------|------|---------------------------|
|                                     | 2012            | 2011 | 2012                      |
| Machinery and equipment:            |                 |      |                           |
| Acquisition cost equivalent         | ¥28             | ¥171 | \$350                     |
| Accumulated depreciation equivalent | 23              | 132  | 283                       |
| Net book value equivalent           | ¥ 5             | ¥ 38 | \$ 66                     |

Undiscounted future lease payments as of March 31, 2012 and 2011, are as follows:

|                     | Millions of yen |      | Thousands of U.S. dollars |
|---------------------|-----------------|------|---------------------------|
|                     | 2012            | 2011 | 2012                      |
| Due within one year | ¥3              | ¥29  | \$45                      |
| Thereafter          | 2               | 9    | 26                        |
| Total               | ¥5              | ¥38  | \$66                      |

Depreciation expense equivalent is computed on a straight-line basis over the lease term with no residual value, and amounted to ¥26 million (\$ 321 thousand) and ¥47 million for the years ended March 31, 2012 and 2011, respectively.

**b) Prepaid lease payment applicable to operating lease transaction that cannot be cancelled as of March 31, 2012 and 2011 are as follows:**

|                     | Millions of yen |      | Thousands of U.S. dollars |
|---------------------|-----------------|------|---------------------------|
|                     | 2012            | 2011 | 2012                      |
| Due within one year | ¥ 6             | ¥ 8  | \$ 74                     |
| Thereafter          | 3               | 12   | 47                        |
| Total               | ¥10             | ¥21  | \$122                     |

## 16. Consolidated comprehensive income

Information relating to the amounts of reclassification adjustment applicable to other accumulated comprehensive income for the year ended March 31, 2012 is presented as follows.

|  | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
|  | 2012            | 2012                      |
| Valuation difference on available-for-sale securities: |                 |                           |
| The amount arising during the period                   | ¥ 26            | \$ 321                    |
| Reclassification adjustment                            | 69              | 843                       |
| Foreign currency translation adjustment:               |                 |                           |
| The amount arising during the period                   | (20)            | (245)                     |
| Reclassification adjustment                            | 7               | 85                        |
| Before adjustment for tax effects                      | 82              | 1,003                     |
| Amount of tax effects                                  | 170             | 2,075                     |
| Total other accumulated comprehensive income           | ¥252            | \$3,079                   |

Information relating to the amounts of tax effects applicable to other accumulated comprehensive income for the year ended March 31, 2012 is presented as follows.

|   | Millions of yen                   |                       |                                  |
|---|-----------------------------------|-----------------------|----------------------------------|
|   | 2012                              |                       |                                  |
|   | Before adjustment for tax effects | Amount of tax effects | After adjustment for tax effects |
| Valuation difference on available-for-sale securities | ¥95                               | ¥ —                   | ¥ 95                             |
| Revaluation reserve for land                          | —                                 | 170                   | 170                              |
| Foreign currency translation adjustment               | (13)                              | —                     | (13)                             |
| Total other accumulated comprehensive income          | ¥82                               | ¥170                  | ¥252                             |

|   | Thousands of U.S. dollars         |                       |                                  |
|---|-----------------------------------|-----------------------|----------------------------------|
|   | 2012                              |                       |                                  |
|   | Before adjustment for tax effects | Amount of tax effects | After adjustment for tax effects |
| Valuation difference on available-for-sale securities | \$1,164                           | \$ —                  | \$1,164                          |
| Revaluation reserve for land                          | —                                 | 2,075                 | 2,075                            |
| Foreign currency translation adjustment               | (130)                             | —                     | (130)                            |
| Total other accumulated comprehensive income          | \$1,003                           | \$2,075               | \$3,079                          |

## 17. Income taxes

The significant components of the Company's deferred tax assets and liabilities as of March 31, 2012 and 2011 are as follows:

|   | Millions of yen |         | Thousands of U.S. dollars |
|---|-----------------|---------|---------------------------|
|   | 2012            | 2011    | 2012                      |
| Deferred tax assets:  |                 |         |                           |
| Reserve for employees' retirement benefit                       | ¥ 1,226         | ¥ 1,328 | \$ 14,933                 |
| Long-term accounts payable                                      | —               | 2       | —                         |
| Amortization of transitional obligation                         | 425             | 484     | 5,177                     |
| Accrued expenses  | 126             | 133     | 1,537                     |
| Loss on valuation of memberships denied for deduction           | 28              | 100     | 352                       |
| Allowance for doubtful accounts                                 | 237             | 220     | 2,886                     |
| Provision for loss on construction denied for deduction         | 41              | 50      | 502                       |
| Net operating loss carryforwards                                | 416             | 787     | 5,071                     |
| Impairment loss denied for deduction                            | 237             | 421     | 2,895                     |
| Loss on support of subsidiaries and affiliates                  | 1,055           | 1,424   | 12,855                    |
| Loss on valuation of stocks of subsidiaries and affiliates      | 439             | 450     | 5,350                     |
| Other   | 754             | 753     | 9,192                     |
| Subtotal  | 4,989           | 6,157   | 60,756                    |
| Valuation allowance   | (4,644)         | (5,763) | (56,554)                  |
| Total deferred tax assets                                       | ¥ 345           | ¥ 393   | \$ 4,202                  |
| Deferred tax liabilities:                                       |                 |         |                           |
| Gain on securities contributed to employees' retirement benefit | (345)           | (393)   | (4,202)                   |
| Special depreciation allowance for tax purposes                 | (7)             | (8)     | (91)                      |
| Disposal expenses relating to asset retirement obligations      | (4)             | (5)     | (58)                      |
| Total deferred tax liabilities                                  | ¥ (357)         | ¥ (407) | \$ (4,352)                |
| Total net deferred tax assets                                   | ¥ (12)          | ¥ (13)  | \$ (149)                  |

Major components of significant differences between the statutory effective tax rate and burden rate of corporate taxes, etc. after application of tax-effect accounting for the years ended March 31, 2012 and 2011 are presented as follows.

|   | 2012   | 2011   |
|---|--------|--------|
| Statutory effective tax rate  | 40.5%  | 40.5%  |
| (Adjustments)   |        |        |
| Non-deductible expenses such as entertainment                                   | 2.2    | 6.5    |
| Per capita inhabitants' taxes   | 3.8    | 8.0    |
| Increase/decrease in valuation reserves   | (22.5) | (39.3) |
| Other   | (3.6)  | (3.6)  |
| Burden rate of corporate taxes, etc. after application of tax-effect accounting | 20.4%  | 12.1%  |

## 18. Segment information

### (1) Industry segments

Summarized financial information by industry segment for the years ended as of March 31, 2012 is as follows:

|                       | Millions of yen           |        |         |             |                   |
|-----------------------|---------------------------|--------|---------|-------------|-------------------|
|                       | Year ended March 31, 2012 |        |         |             |                   |
|                       | Construc-<br>tion         | Others | Total   | Elimination | Consoli-<br>dated |
| Revenues:             |                           |        |         |             |                   |
| Customers             | ¥73,377                   | ¥ 604  | ¥73,982 | ¥ —         | ¥73,982           |
| Inter-segments        | —                         | 1,418  | 1,418   | (1,418)     | —                 |
| Total                 | 73,377                    | 2,022  | 75,400  | (1,418)     | 73,982            |
| Operating expenses    | 71,184                    | 1,963  | 73,147  |             |                   |
| Operating income/loss | 2,193                     | 59     | 2,252   | 2           |                   |
| Assets                | 42,777                    | 1,369  | 44,147  | 14,222      | 58,370            |
| Depreciation          | 837                       | 34     | 872     | (3)         | 869               |
| Capital expenditures  | 695                       | 2      | 697     | 5           | 703               |

|                       | Thousands of U.S. dollars |          |           |             |                   |
|-----------------------|---------------------------|----------|-----------|-------------|-------------------|
|                       | Year ended March 31, 2012 |          |           |             |                   |
|                       | Construc-<br>tion         | Others   | Total     | Elimination | Consoli-<br>dated |
| Revenues:             |                           |          |           |             |                   |
| Customers             | \$893,433                 | \$ 7,361 | \$900,794 | \$ —        | \$900,794         |
| Inter-segments        | —                         | 17,267   | 17,267    | (17,267)    | —                 |
| Total                 | 893,433                   | 24,628   | 918,062   | (17,267)    | 900,794           |
| Operating expenses    | 866,726                   | 23,909   | 890,635   |             |                   |
| Operating income/loss | 26,706                    | 719      | 27,426    | 32          |                   |
| Assets                | 520,855                   | 16,680   | 537,536   | 173,172     | 710,708           |
| Depreciation          | 10,199                    | 424      | 10,624    | (37)        | 10,586            |
| Capital expenditures  | 8,465                     | 32       | 8,497     | 66          | 8,563             |

The "Others" segment includes the product and material sales, leasing and home care businesses.

### (2) Geographical segments

Summarized financial information for revenues by geographical business segment for the years ended as of March 31, 2012 and 2011 is as follows:

|               | Millions of yen |         | Thousands of U.S. dollars |
|---------------|-----------------|---------|---------------------------|
|               | 2012            | 2011    | 2012                      |
| Japan         | ¥69,337         | ¥61,168 | \$844,237                 |
| North America | 2,827           | 2,636   | 34,422                    |
| Other         | 1,817           | 57      | 22,134                    |
| Total         | ¥73,982         | ¥63,862 | \$900,794                 |

## 19. Subsequent event

On June 28, 2012, 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 (\$0.1) per share (final for the year ended March 31, 2012) | ¥421            | \$5,129                   |

## ● BOARD OF DIRECTORS AND AUDITORS

### President

Yasumi Irie

### Managing Directors

Ayumu Yasukawa

Susumu Araki

Kazuo Suzuki

Sigeaki Funayama

### Directors

Yoichi Howa

Nobuyuki Fujisawa

Makoto Nishi

Takao Ogawa

Tadashi Shibata

(as of June 28, 2012)

## ● SHARE INFORMATION

### Common Stock:

Authorized shares  
198,000,000 shares  
(as of March 31, 2012)

Issued and outstanding shares  
57,804,450 shares  
(as of June 28, 2012)

Number of shareholders  
13,611  
(as of March 31, 2012)

### Fiscal Year-End:

End of March each year

### Annual Meeting:

In June of each year in Tokyo,  
Japan

### Transfer Agent, Registrar and Dividend Payments:

Sumitomo Mitsui Trust  
Bank, Limited  
1-4-1 Marunouchi, Chiyoda-ku,  
Tokyo 100-8233, 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: 81-3-3265-2555  
Fax: 81-3-3265-2689

## ● CORPORATE DATA

### Head Office:

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

### Capital:

¥6,119,475,000  
US\$74,509,619  
(¥82.13=US\$1.00)  
(as of March 31, 2012)

### 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  
Japan Trustee Services Bank, Ltd.  
Nippon Life Insurance Company  
The Hokuriku Bank, Ltd.

### Employees:

1,057 (as of March 31, 2012)