Iseki & Co., Ltd.

Annual Report 2004

Year ended March 31, 2004

Real and Steady

Our Targets under Our Three-Year Business Plan:

- **Focusing on Profitability and Cash Flow**
- **Mobilizing the Full Capabilities of the Iseki Group**

Our Core Competencies:	Our Strategic Initiatives:
Product Development and Marketing Capabilities as a Comprehensive Specialized Agricultural Equipment Manufacturer	Capturing a 20% Market Share in Japan
Alliances with Overseas Partners and Overseas Manufacturing Capabilities at Subsidiaries	Strengthening and Expanding Overseas Businesses
Development of Non-Machinery Core Businesses	Expanding Non-Machinery Businesses
Manufacturing Activities Concentrated in Separate Subsidiaries	Reducing Manufacturing Costs and Interest-Bearing Debt

Progress

"Contributing to human society through agriculture and agricultural machinery" is Iseki & Co., Ltd.'s true desire. We have been promoting the mechanization of agriculture for about 80 years and have successfully introduced farming innovations through the development of a wide range of agricultural machinery, such as tractors, combine harvesters, and rice transplanters. Today, increasing food production and preserving the natural environment are pressing issues worldwide. We at Iseki remain committed to meeting new challenges and creating new ways of farming.

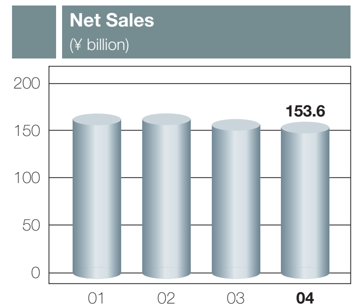
Fiscal 2004 Highlights

Key Financial Data:

Net Sales	¥153.6 billion
Operating Income	6.4 billion
Net Income	3.1 billion
Cash Flows from Operating Activities	12.4 billion
Interest-Bearing Debt*	78.3 billion

Percentages at right indicate change from fiscal 2000

–6.1%



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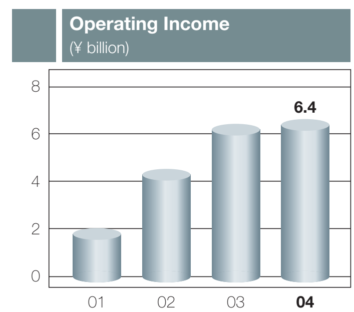

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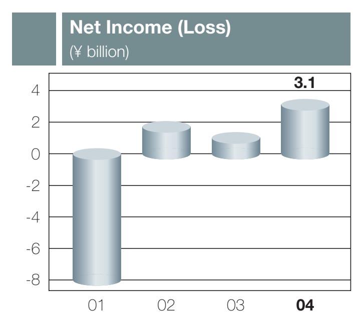

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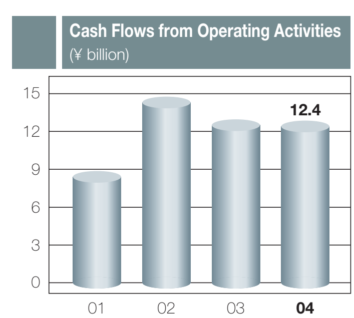

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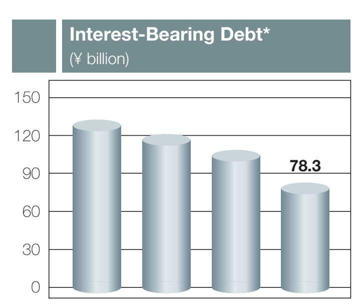

* Including notes receivable discounted with banks

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Moving Ahead with Strategic Initiatives

Hiroyuki Nakano, President, with a tractor from the ***GEAS-AT*** series, which has been completely updated

Overview of Fiscal 2004, Ended March 31, 2004

During fiscal 2004, domestic sales in Iseki & Co., Ltd.'s mainstay agricultural machinery business were approximately unchanged from the previous fiscal year, but domestic sales of agricultural facilities were down considerably. Sales of products strategically emphasized in the Company's three-year business plan—namely, heavy machinery and machinery that assists in the cultivation of vegetables—increased in accordance with the plan.

Overseas sales grew favorably, with particularly strong increases seen in North American sales of subcompact tractors and European sales of riding mowers. Regarding Asia, our consolidated performance benefited significantly from sales of rice transplanters in Korea and tractors in Thailand and Malaysia.

During the year, Iseki's thorough cost-cutting measures and reduction in selling, general and administrative expenses had a positive effect on its profitability, as did an improvement in the balance of financial income and expenditure items that reflected a drop in interest-bearing debt. Consequently, net income shot up ¥2.1 billion, to ¥3.1 billion.

This enabled us to resume the payment of cash dividends for the first time in seventeen fiscal years.

Also reflecting the drop in interest-bearing debt, Iseki's total assets have been reduced to below ¥200 billion. This reduction and a steady annual rise in shareholders' equity have boosted our equity ratio to 25.1%, and the Iseki Group plans to continue working concertedly to further increase its profitability and improve its balance-sheet structure.

Initiatives for Capturing a 20% Market Share in Japan

Providing a Broad Range of Machinery for Integrated Rice Cultivation

Annual demand for agricultural machinery in Japan has amounted to approximately ¥400 billion in recent years, but the market is projected to decline at a rate of about 2% a year over the medium-to-long term. The market is dominated by Iseki and three other comprehensive agricultural machinery makers, and very little change has been seen in the market shares each holds. All four leading companies are seeking to expand the share of revenues accounted for by sales overseas.

The overall number of farmers in Japan is declining, and the profile of the farmers remaining is becoming increasingly polarized. The average age of the traditional small-scale Japanese farmer is rising, and the number of such farmers gradually decreasing, while the number of large-scale farmers with over five hectares of land is growing. These trends are expected to speed up due to such factors as a rise in incorporation among farms and growing concerns about Japan's food security.

Amid these circumstances, agricultural machinery needs are also becoming increasingly polarized, with large-scale farmers seeking out products with comprehensive ranges of function and small-scale farmers focusing on reasonably priced, easy-to-operate products.

Expanding Our Lineup of Heavy Machinery and Vegetable Transplanters

Iseki provides large-scale farmers with such equipment as the ***T-Japan*** series of tractors and the ***Japan*** series of combine harvesters while also striving to meet farmers' needs for such diverse products as hydroponics and other facilities and agricultural materials. In addition, the Company has emphasized the development of machinery that assists in the cultivation of vegetables. While the vegetable-growing market is comparable to the rice-growing market in scale, the mechanization of vegetable cultivation has progressed more slowly due to the diversity of produce grown. Reflecting concerns

A mixed manufacturing system that enables combine harvesters and tractors to be assembled on the same production line (Iseki-Matsuyama Mfg. Co., Ltd.)

about agrochemical residues as well as greater consciousness of food quality, Japanese consumers are becoming more appreciative of the relative safety of domestic produce. This trend has the potential for greatly augmenting demand for machinery associated with vegetable cultivation. Products designed to meet the specific regional needs of Japanese farmers are expected to generate new demand.

Introducing Key Model Changes in Fiscal 2005

Taking the initiative ahead of its competitors, Iseki has developed combine harvesters and rice transplanters that meet its customers' needs and today offers a full line of products for rice cultivation. Leveraging its accumulated technological and product development capabilities, the Company is working to strengthen its product lineup with regard to quality, functionality, operating cost, and price.

In June 2004, Iseki implemented complete model changes for existing ***GEAS-AT*** series tractors and launched additional automatic transmission products in that series, offering products that boost farming efficiency thanks to their ease of use while being safer due to their upgraded automatic features and greater operational precision. These products earned high evaluations soon after their appearance on the market. By concertedly leveraging the Iseki Group's exhaustive product development, manufacturing, and marketing capabilities as a comprehensive specialist in the area of agricultural machinery, Iseki plans to launch additional combine harvesters and rice transplanters that will enable it to meet further diversifying market needs and expand market share.

Strengthening and Expanding Overseas Operations

Our products are used in agriculture, lawn maintenance, light civil engineering, and diverse other applications in more than 100 countries, where we have earned a solid reputation for the quality and performance of our products as well as for the excellence of our related services. The Company anticipates that its export ratio will rise along with increases in its overseas sales, particularly in North America and Europe, and steady sales growth in Asian countries is expected over the medium-to-long term. By developing products tailored to local needs, the Company is endeavoring to augment the scale and profitability of its overseas operations.

A ***GC*** series subcompact tractor for the North American market

An ***SXG*** series riding mower for the European market

North America

Against the backdrop of high levels of housing construction starts, demand has increased for the kind of compact tractors for gardening applications that Japanese companies are particularly adept at manufacturing. As local manufacturers continue to focus on relatively large-scale products, the expansion of the compact tractor market represents a major opportunity for Japanese companies. Iseki supplies compact tractors under three brands on an OEM basis to AGCO Corporation, which is the world's fourth largest agricultural machinery manufacturer. The Company launched additional new tractor products during 2003, and plans call for further increasing its market share through the introduction of additional new products from the latter half of the current fiscal year.

Europe

In Europe, the Company has successfully marketed compact tractors and gardening products under the Iseki brand for more than 30 years. Sales of recently launched premium lawn mowers and other new products have been strong, and the Company intends to further boost its sales by introducing more compact tractors from the latter half of the current fiscal year.

China

The China-based manufacturing and marketing subsidiary Iseki-Changzhou Mfg. Co., Ltd., began operations in January 2004 and is playing a vital role in the Group's operations, shipping locally made individual parts to Japan and thereby helping reduce domestic manufacturing costs. In addition, the subsidiary has a second role of serving as a base for Iseki's procurement of individual parts from diverse sources inside China. Having undertaken wide-ranging studies of possible sources of low-cost yet dependably high-quality individual parts, the subsidiary began shipping a stable stream of individual parts for use in the Iseki Group's manufacturing operations in China and Japan. The subsidiary's third role is the local manufacture and marketing of combine harvesters

and other agricultural machinery and parts. Based on the results of test-marketing operations initiated in 2004, plans call for boosting annual production volume to from 700 units to 800 units by 2007.

In China, 17 times more land is devoted to rice cultivation than in Japan and this number rises to 32 times if both rice and wheat are considered; however, the mechanization of farming processes in China has not yet greatly progressed. At the same time, China's rapid industrial development is draining farming villages of population, and the government is responding by implementing policies that promote agricultural modernization and a rise in grain production. These factors are expected to accelerate agricultural mechanization and growth in the market for agricultural machinery. However, because most combine harvesters in China are used by commissioned reaping services and thus see as much as 1,000 hours of operation per year, combine harvesters for the local market must be highly durable. Anticipating growth in China's agricultural machinery market, Iseki is considering ways to increase its presence in that market, particularly through the development of innovative products meeting local requirements regarding performance as well as durability and cost.

Other Asian Markets

In addition to exporting such products as rice transplanters and combine harvesters to Korea and Taiwan, Iseki began shipping tractors developed for the Thai and Malaysian markets in 2003. Particularly in Thailand, a rise in farmers' purchasing power has rapidly increased demand for high-performance tractors that can be used for many years. Most of the world's rice is grown in Asia, and although the mechanization of Asian rice cultivation has proceeded extremely slowly, a surge can be expected in the near future. In preparation for the future expansion of Asian markets, the Company is positioning itself to meet local requirements, including those related to price.

Expanding Non-Machinery Businesses

Iseki is striving to strengthen and expand its presence in non-machinery businesses, such as those focused on hydroponics facilities and agricultural materials.

A tomato-growing hydroponics facility

Iseki has developed unique hydroponics products that adapt Dutch technologies to Japanese climatic conditions. Currently, the Company commands an overwhelming 60% share of the domestic market for tomato-growing hydroponics facilities. Hydroponics facilities enable the stabilization and monitoring of nutrient provision and can offer such environment-friendly capabilities as nutrient solution recycling. The rising incidence of incorporation among farms is driving sales of hydroponics facilities as is the growing call to match facilities' capabilities for dependable harvest yields with supermarkets' requirements for stable supplies of produce of consistent quality. Accordingly, the Company anticipates a continued steady rise in its sales of hydroponics facilities.

The 21st century is likely to see increasing attention given to environmental protection and agriculture. Since its establishment in 1926, Iseki has maintained progress as a comprehensive specialist in the area of agricultural machinery by moving ahead in step with farmers, thereby contributing to agricultural mechanization and modernization. Moreover, the Company's activities have helped the agricultural industry to keep pace with and sustain modern society. To further increase its contribution to society, in May 2003 Iseki established an Environment Committee to strengthen and augment the Company's environmental protection programs.

To sustain excellent performance regarding corporate citizenship and promote transparent corporate governance, Iseki has established an Ethics Committee that ensures strict conformance with rigorous compliance standards. Furthermore, in April 2003, the Company created an IR Section to proactively furnish information to shareholders, prospective investors, and other interested parties.

In the future, Iseki hopes to develop and launch a steady stream of products and services that help reduce the cost of agricultural products, thereby continually increasing its contribution to agricultural progress throughout the world.

July 2004

H. Nakano

Hiroyuki Nakano
President

Financial Section
Consolidated Five-Year Financial Summary

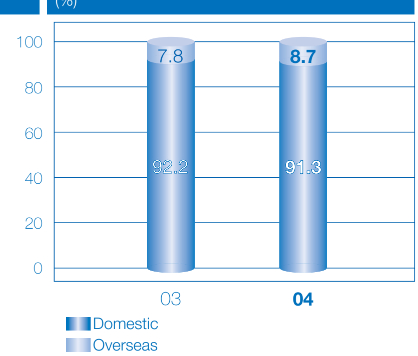
ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2004	2003	2002	2001	2000	**2004**
For the year:						
Net sales	**¥153,624**	¥156,381	¥162,361	¥162,237	¥163,650	**$1,454,360**
Cost of sales	**103,101**	105,374	111,418	112,916	112,763	**976,058**
Selling, general and administrative expenses	**44,149**	44,814	46,662	47,493	48,090	**417,959**
Operating income	**6,374**	6,193	4,281	1,828	2,798	**60,343**
Net income (loss)	**3,077**	1,009	1,749	(8,018)	(915)	**29,130**
Capital expenditures	**5,080**	4,919	6,144	5,630	10,783	**48,092**
Depreciation and amortization	**4,483**	4,898	5,002	5,311	5,616	**42,441**
At year-end:						
Total assets	**197,156**	215,163	231,440	244,464	239,190	**1,866,477**
Net shareholders' equity	**49,576**	46,483	45,197	43,203	40,407	**469,336**
Number of employees	**6,644**	6,743	7,052	7,195	7,428	
Per share data:	Yen					U.S. dollars
Net income (loss)	**¥ 13.90**	¥ 4.56	¥ 7.79	¥ (35.66)	¥ (4.07)	**$0.13**
Shareholders' equity	**226.85**	210.44	201.12	192.24	179.65	**2.15**
Cash dividends	**3.00**	—	—	—	—	**0.03**
	(%)					
Ratios:						
Return on equity	**6.4%**	2.2%	4.0%	(19.2)%	(2.2)%	
Return on assets	**1.5**	0.5	0.7	(3.3)	(0.4)	
Shareholders' equity to total assets	**25.1**	21.6	19.5	17.7	16.9	

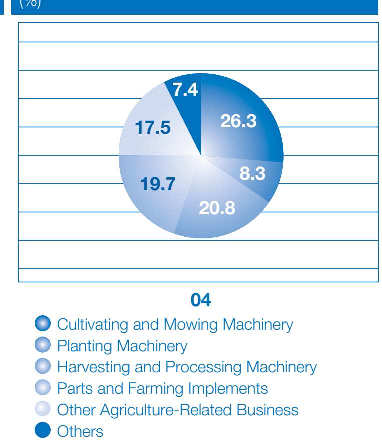
Note: U.S. dollar amounts have been translated from yen, for convenience only at the rate of ¥105.63 to US$1.00, the approximate rate of exchange at March 31, 2004

Definitions: Return on equity = 100 × net income / average net shareholders' equity in the fiscal period
Return on assets = 100 × net income / average total assets in the fiscal period
Shareholders' equity to total assets = 100 × net shareholders' equity / total assets

Sales Breakdown by Market
(%)



Sales Composition by Product Category
(%)



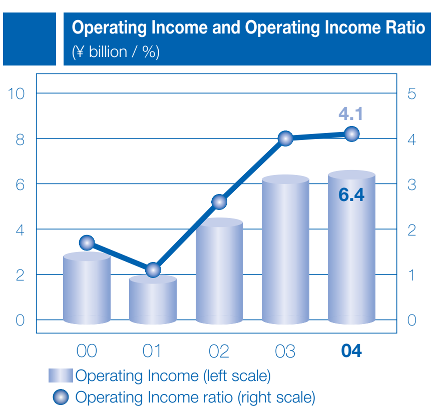
Overview

In line with its basic management principle of "contributing to agriculture in Japan and the world" by "providing products to satisfy customers," Iseki has made its strategic objectives "the strengthening of products, enhancement of quality, reduction of costs, and augmentation of marketing and servicing capabilities." Aiming for a corporate framework that ensures stable business performance, Iseki is reforming its profit structure. The Company has assembled a lineup of new products that meets customers' diverse needs and is working to increase overseas as well as domestic sales.

Net sales for fiscal 2004, ended March 31, 2004, edged down ¥2.8 billion, or 1.8%, from fiscal 2003, to ¥153.6 billion.

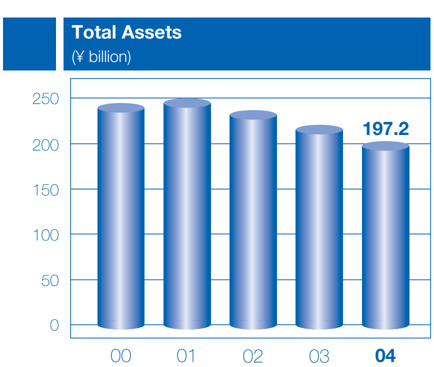
Overseas

Increased tractor sales to North America and Europe contributed to a year-on-year increase of ¥1.2 billion, or 9.7%, in overseas sales, to ¥13.3 billion. In the North American market, sales of subcompact tractors (***GC*** series) showed healthy expansion, and in the European market, riding mowers (***SXG*** series) showed strong growth. Furthermore, in Asia, rice transplanters sold well in South Korea.



Domestic

Domestic performance was affected by poor sales of agricultural facilities, and overall domestic sales declined ¥3.9 billion, or 2.7%, to ¥140.3 billion. Of this figure, sales of agricultural machinery, the mainstay product lineup of the Company, were down ¥0.6 billion, or 0.8%, from fiscal 2003. Sales of strategically focused products, such as large tractors, large combine harvesters, and other heavy machinery, as well as vegetable transplanters, grew according to plan, but sales of small-scale machinery did not meet expectations. Sales of agricultural facilities dropped ¥3.2 billion, or 31.3%, as a result of declines in the sales of large-scale drying facilities and a delay in the completion of hydroponics facilities.



Costs, Expenses, and Earnings

Operating income increased ¥0.2 billion, or 2.9%, to ¥6.4 billion. The factors contributing to the change were as follows: a ¥0.9 billion decrease due to the decline in net sales, a ¥0.4 billion increase due to an improvement in the cost of sales ratio through reductions in purchased parts and materials expenses, and a ¥0.7 billion increase due to a reduction in selling, general and administrative costs mainly attributable to a decrease in personnel costs.

Income before income taxes and minority interests soared ¥2.5 billion, or 143.4%, from fiscal 2003, to ¥4.2 billion. This increase was due to the aforementioned ¥0.2 billion rise in operating income, a ¥0.6 billion decrease in interest expense as a result of a reduction in interest-bearing debt, ¥0.3 billion in income from the sale of Iseki's vehicle-leasing operations, and a decline in extraordinary losses from fiscal 2003.

As a result, net income after the deduction of income taxes and minority interests rocketed ¥2.1 billion, or 205.0%, to ¥3.1 billion.

Financial Condition

Total assets contracted ¥18.0 billion, or 8.4%, from the end of fiscal 2003, to ¥197.2 billion. Cash and time deposits decreased ¥17.5 billion. This was the outcome of a financial scheme in which the Company cancelled fixed-term deposits, reduced its cash reserve, and repaid interest-bearing liabilities. The scheme was enabled by the Company's entry into a commitment line agreement with financial institutions in December 2003.

Total liabilities declined ¥20.8 billion, largely due to a ¥25.5 billion reduction in short-term borrowings and long-term debt. Minority interests in consolidated subsidiaries were also down due to the acquisition of minority stock in some subsidiaries that made them the Company's wholly-owned subsidiaries.

Net shareholders' equity was up ¥3.1 billion from the previous fiscal year-end due principally to an increase in retained earnings, to ¥49.6 billion, at the end of the period.

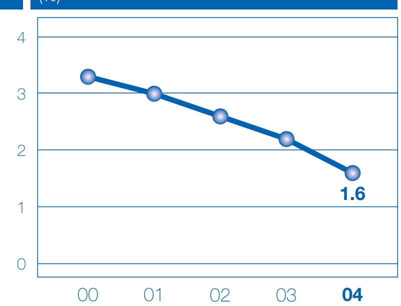
As a result of its efforts to improve its profit structure by reducing its total assets and lowering the balance of its interest-bearing debt, the Company was able to improve its principal financial indicators as follows:

(1) The ratio of shareholders' equity to total assets improved from 21.6% at the end of fiscal 2003, to 25.1%.

(2) The debt to equity ratio improved from 2.2 times to 1.6 times.

Shareholders' Equity and Shareholders' Equity Ratio
(¥ billion / %)

Debt to Equity Ratio
(%)



Cash Flows

Cash provided by operating activities during the year was ¥12.4 billion, down ¥0.1 billion from the previous reporting period.

Cash provided by investing activities was ¥5.6 billion, compared with a net outflow of ¥1.9 billion in the previous fiscal period. Iseki was able to reverse cash outflows in fiscal 2004 primarily because of a ¥9.8 billion cash inflow due to special factors, including ¥9.0 billion in cash from the cancellation of fixed-term deposits following the arrangement of a commitment line and a ¥0.8 billion gain on the sale of leasing operations.

Net cash used in financing activities was ¥26.6 billion, an increase from the previous year's ¥12.7 billion. This was largely due to an initiative from the prior term to use cash flows provided from operating and investing activities principally for the repayment of ¥25.5 billion in interest-bearing debt. In addition, Iseki invested ¥1.2 billion in the acquisition of treasury stock.

As a result, the balance of cash and cash equivalents at the end of fiscal 2004 was down ¥8.5 billion from the start of the period, at ¥11.0 billion.

Progress of the Three-Year Business Plan

In line with our three-year business plan, which began in fiscal 2004, we have created the following basic strategies to achieve our goals:

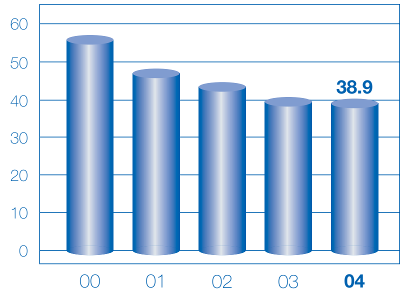
- Enhance and expand sales overseas
- Secure a 20% share of the domestic market for agricultural machinery by intensifying our commitment to sales and marketing
- Further bolster our capability to develop new products which capitalize on our strength as a comprehensive specialist in the area of agricultural machinery
- Build a "low-cost structure" by reforming our consolidated revenue structure

Progress toward achieving the goals laid out in this plan is as follows.

• Enhance and expand sales overseas

Overseas sales of agricultural machinery were ¥0.5 billion higher than the ¥11.5 billion target set for the first fiscal year of the plan, and ¥1.4 billion higher than in fiscal 2003. Sales in North America were supported by strong demand, and the expansion of our product line lifted sales in line with the ¥5.7 billion first-year target, an increase of ¥0.9 billion from fiscal 2003. In Europe, our new ***SXG*** series of riding mowers sold well, boosting sales ¥0.4 billion beyond the first-year target of the plan, to ¥4.6 billion, a rise of ¥0.4 billion from the prior term. In Southeast Asia, Iseki began marketing tractors to Thailand and Malaysia during the current period. In the Chinese market, where demand is expected to soar, Iseki will launch the test marketing of combine harvesters in fiscal 2005.

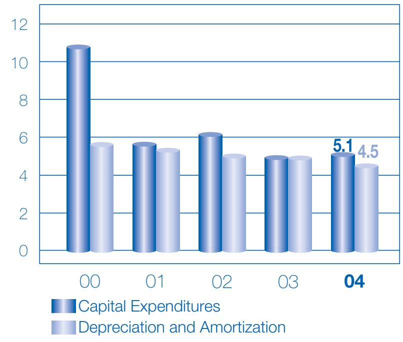
Inventories
(¥ billion)



• Expanding our domestic market share

Overall domestic sales of agricultural machinery, at ¥73.5 billion, down ¥0.6 billion from fiscal 2003, fell ¥2.5 billion short of the first-year target. Sales of small-scale machinery slumped, but rose for heavy machinery and vegetable transplanters, which are flagship products for the plan and generated sales approximately in line with first-year targets of the plan. Revenues from sources other than agricultural machinery (including hydroponics facilities, coin-operated rice polishing machines, repair services, and agricultural materials) were ¥1.3 billion below the first-year target of the plan, at ¥12.6 billion (up ¥0.6 billion from fiscal 2003), due mainly to delays in the completion of hydroponics facilities that caused sales to fall ¥1.2 billion.

Capital Expenditures and Depreciation and Amortization
(¥ billion)



• Bolstering product development capabilities

The reduction in the production cost of new products is proceeding mostly as planned. In addition, Iseki opened a Chinese production base (in Changzhou, Jiangsu Province) as planned in January 2004. We have been able to cut the number of models in production from the previous year by 10%, short of the planned streamlining of 14%. Regarding the planned reduction of lead times to the target of 15 days, we have presently achieved 91% of the plan, and expect to reach 100% in fiscal 2005.

• Progress in reforming our consolidated revenue structure

Iseki is reforming its consolidated earnings composition, further bolstering the Group's financial position, and advancing a low-cost corporate structure. To achieve our target of reducing total costs 30%, we are proceeding with our strategies of reducing inventories, shrinking the balance of interest-bearing debt, reforming the revenue structure of our sales subsidiaries, and other measures.

a. Reducing interest-bearing debt

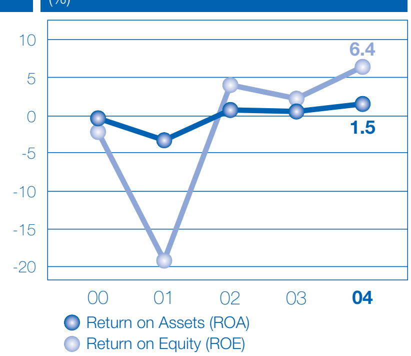
In September 2003, Iseki devolved its vehicle-leasing operations, and in December 2003, it implemented a commitment line. As a result, the balance of interest-bearing debt (including notes receivable discounted with banks) as of March 31, 2004, was ¥78.3 billion—well below the planned balance of ¥90.0 billion, and ¥25.8 billion down from the balance at the end of the previous reporting period. Furthermore, with regard to the fiscal year ending March 31, 2005, Iseki intends to use all of the additional revenue of approximately ¥13.0 billion from the June 2004 transfer of the credit services business to repay loans. Through this and other measures, the Company will achieve the goal of lowering the balance of interest-bearing debt to below ¥60.0 billion in the fiscal year ending March 31, 2005, rather than in the final year of the plan ending March 31, 2006, as originally intended.

b. Creation of the production framework

During this period, the Group integrated tractor production into the Matsuyama manufacturing plant (June 2003), and relocated the Hoei manufacturing plant adjacent to the Matsuyama plant (July 2003).

By implementing such measures as the above, Iseki has been able to cut expenses by approximately ¥0.2 billion through the increased efficiency of overhead and logistics costs.

Return on Assets (ROA) and Return on Equity (ROE)
(%)



Dividends

At Iseki, we recognize that the securing of dividends for payment to shareholders is one of our most important priorities. Our basic policy is to take into consideration not just current financial results, but also our financial position and future business plan before settling on a sustainable and steady program of dividend distribution.

Pursuant to this policy, Iseki decided to pay a year-end ¥3 per share cash dividend to shareholders for fiscal 2004.

Outlook

Despite the apparent signs of economic recovery, the economic climate is expected to continue to be harsh amid fears of a rise in raw materials costs. Within this economic environment, Iseki will strive to secure stable profits and strengthen its business base.

Sales are expected to rise ¥5.4 billion, to ¥159.0 billion, in fiscal 2005. The main drivers of the rise are projected expansions in overseas sales of ¥1.5 billion, in domestic sales of tractors thanks to a full-model change of ¥2.0 billion, and in sales of hydroponics facilities of ¥2.0 billion. Operating income is expected to grow ¥1.4 billion in the period, to ¥7.8 billion, due to the growth in revenue and further reductions in costs. Net income is expected to rise to ¥3.5 billion, up ¥0.4 billion from the year under review.

In line with the basic policy of “sustaining a stable dividend,” it is expected that the end-of-year cash dividend payment per share for fiscal 2005 will be ¥3, the same as that for fiscal 2004.

Financial Section
Consolidated Balance Sheets

ISEKI & CO., LTD. and Consolidated Subsidiaries
March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
ASSETS	**2004**	2003	2002	**2004**
Current assets:				
Cash and time deposits (Note 3)	**¥ 13,466**	¥ 30,990	¥ 32,923	**$ 127,483**
Marketable securities (Note 4)	**277**	282	79	**2,622**
Notes and accounts receivable	**46,910**	47,991	54,567	**444,097**
Allowance for doubtful accounts	**(757)**	(728)	(813)	**(7,166)**
Inventories (Note 5)	**38,921**	39,348	43,288	**368,465**
Deferred income taxes (Note 11)	**1,604**	375	267	**15,185**
Prepaid expenses and other current assets	**3,819**	4,310	4,762	**36,155**
Total current assets	**104,240**	122,568	135,073	**986,841**
Property, plant and equipment (Note 6):				
Land (Note 15)	**50,400**	50,235	50,762	**477,137**
Buildings and structures	**42,986**	42,753	42,767	**406,949**
Machinery, equipment and vehicles	**43,416**	45,918	46,515	**411,020**
Tools, furniture and fixtures	**25,352**	26,880	26,621	**240,007**
Others	**930**	728	695	**8,804**
Construction in progress	**1,162**	480	1,220	**11,001**
Less accumulated depreciation	**(84,441)**	(85,603)	(83,940)	**(799,404)**
Property, plant and equipment, net	**79,805**	81,391	84,640	**755,514**
Investments and other assets:				
Investment securities (Notes 4 and 6)	**7,624**	5,995	6,079	**72,176**
Investments in an unconsolidated subsidiary and affiliates	**75**	75	75	**710**
Intangible assets	**1,059**	1,130	755	**10,026**
Deferred income taxes (Note 11)	**477**	535	454	**4,516**
Others	**4,654**	3,712	4,542	**44,059**
Allowance for doubtful accounts	**(778)**	(243)	(178)	**(7,365)**
Total investments and other assets	**13,111**	11,204	11,727	**124,122**
Total assets	**¥197,156**	¥215,163	¥231,440	**$1,866,477**

See accompanying notes to consolidated financial statements.

LIABILITIES, MINORITY INTERESTS AND SHAREHOLDERS' EQUITY	Millions of yen 2004	2003	2002	Thousands of U.S. dollars (Note 1) 2004
Current liabilities:				
Short-term borrowings (Note 6)	**¥ 39,337**	¥ 72,516	¥ 78,237	**$ 372,404**
Current portion of long-term debt (Note 6)	**10,539**	17,337	11,012	**99,773**
Notes and accounts payable, trade	**39,938**	37,421	41,302	**378,093**
Notes and accounts payable, construction	**506**	249	641	**4,790**
Accrued expenses	**4,064**	3,828	3,916	**38,474**
Accrued income taxes	**1,751**	542	812	**16,577**
Other current liabilities	**6,061**	6,573	7,082	**57,380**
Total current liabilities	**102,196**	138,466	143,002	**967,491**
Long-term liabilities:				
Long-term debt (Note 6)	**28,219**	13,710	26,428	**267,149**
Accrued retirement benefits (Note 7)	**5,049**	4,768	4,208	**47,799**
Deferred income taxes (Note 11)	**8,371**	7,673	8,107	**79,248**
Other long-term liabilities	**2,286**	2,274	1,753	**21,642**
Total long-term liabilities	**43,925**	28,425	40,496	**415,838**
Total liabilities	**146,121**	166,891	183,498	**1,383,329**
Minority interests in consolidated subsidiaries	**1,459**	1,789	2,745	**13,812**
Contingent liabilities (Note 14)				
Shareholders' equity (Note 8):				
Common stock:				
Authorized—696,037,000 shares				
Issued—225,054,088 shares at March 31, 2004, 2003 and 2002	**22,534**	22,534	22,534	**213,330**
Capital surplus	**11,645**	11,599	11,599	**110,243**
Retained earnings (Note 16)	**4,519**	1,442	101	**42,781**
Land revaluation reserve (Note 15)	**10,697**	10,697	10,664	**101,269**
Net unrealized holding gain on securities (Note 4)	**1,584**	514	332	**14,996**
Foreign currency translation adjustments	**(8)**	—	—	**(76)**
	50,971	46,786	45,230	**482,543**
Treasury stock, at cost: 6,507,892 shares in 2004 4,170,077 shares in 2003 8,953 shares in 2002	**(1,395)**	(303)	(33)	**(13,207)**
Net shareholders' equity	**49,576**	46,483	45,197	**469,336**
Total liabilities, minority interests and shareholders' equity	**¥197,156**	¥215,163	¥231,440	**$1,866,477**

Consolidated Statements of Income

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Net sales	**¥153,624**	¥156,381	¥162,361	**$1,454,360**
Cost of sales (Note 9)	**103,101**	105,374	111,418	**976,058**
Gross profit	**50,523**	51,007	50,943	**478,302**
Selling, general and administrative expenses (Note 9)	**44,149**	44,814	46,662	**417,959**
Operating income	**6,374**	6,193	4,281	**60,343**
Other income (expenses):				
Interest and dividend income	**254**	256	227	**2,405**
Interest expense	**(1,621)**	(2,214)	(2,430)	**(15,346)**
Gain (loss) on sales of investment securities, net (Note 4)	**63**	268	(70)	**596**
Loss on sales or disposal of property, plant and equipment	**(405)**	(242)	(126)	**(3,834)**
Others, net (Note 7)	**(419)**	(2,517)	1,160	**(3,967)**
Income before income taxes and minority interests	**4,246**	1,744	3,042	**40,197**
Income taxes (Note 11):				
Current	**2,298**	1,015	1,121	**21,755**
Deferred	**(1,188)**	(370)	84	**(11,247)**
	1,110	645	1,205	**10,508**
Income before minority interests	**3,136**	1,099	1,837	**29,689**
Minority interests in consolidated subsidiaries	**59**	90	88	**559**
Net income	**¥ 3,077**	¥ 1,009	¥ 1,749	**$ 29,130**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Common stock:				
Balance at beginning and end of the year	**¥22,534**	¥22,534	¥22,534	**$213,330**
Capital surplus:				
Balance at beginning of the year	**¥11,599**	¥11,599	¥17,895	**$109,808**
Gain on disposition of treasury stock	**46**	—	—	**435**
Transfer to retained earnings	**—**	—	(6,296)	**—**
Balance at end of the year	**¥11,645**	¥11,599	¥11,599	**$110,243**
Retained earnings:				
Balance at beginning of the year	**¥ 1,442**	¥ 101	¥ (7,944)	**$ 13,651**
Net income	**3,077**	1,009	1,749	**29,130**
Transfer from capital surplus	**—**	—	6,296	**—**
Transfer from land revaluation reserve	**—**	324	—	**—**
Increase resulting from exclusion of certain subsidiaries from consolidation	**—**	8	—	**—**
Balance at end of the year	**¥ 4,519**	¥ 1,442	¥ 101	**$ 42,781**
Land revaluation reserve:				
Balance at beginning of the year	**¥10,697**	¥10,664	¥10,664	**$101,269**
Increase resulting from a change in statutory tax rate	**—**	357	—	**—**
Transfer to retained earnings	**—**	(324)	—	**—**
Balance at the end of the year	**¥10,697**	¥10,697	¥10,664	**$101,269**
Net unrealized holding gain on securities:				
Balance at beginning of the year	**¥ 514**	¥ 332	¥ 86	**$ 4,866**
Net change	**1,070**	182	246	**10,130**
Balance at end of the year	**¥ 1,584**	¥ 514	¥ 332	**$ 14,996**
Foreign currency translation adjustments:				
Balance at beginning of the year	**¥ —**	¥ —	¥ —	**$ —**
Net change	**(8)**	—	—	**(76)**
Balance at end of the year	**¥ (8)**	¥ —	¥ —	**$ (76)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2004	2003	2002	**2004**
Cash flows from operating activities:				
Income before income taxes and minority interests	**¥ 4,246**	¥ 1,744	¥ 3,042	**$ 40,197**
Adjustments for:				
Depreciation and amortization	**4,483**	4,898	5,002	**42,441**
(Gain) loss on sales of investment securities, net	**(63)**	(268)	70	**(596)**
Loss on devaluation of investment securities	**—**	853	1,452	**—**
Interest and dividend income	**(254)**	(256)	(227)	**(2,405)**
Interest expense	**1,621**	2,214	2,430	**15,346**
Loss on sales or disposal of property, plant and equipment	**405**	242	126	**3,834**
Changes in operating assets and liabilities:				
Decrease in notes and accounts receivable	**310**	6,577	5,187	**2,935**
Decrease in inventories	**896**	4,541	3,718	**8,482**
Increase (decrease) in notes and accounts payable—trade	**2,517**	(3,881)	(1,363)	**23,828**
Others, net	**663**	(884)	(2,102)	**6,277**
Subtotal	**14,824**	15,780	17,335	**140,339**
Interest and dividends received	**255**	258	231	**2,414**
Interest paid	**(1,772)**	(2,259)	(2,425)	**(16,776)**
Proceeds from insurance claim	**152**	—	—	**1,439**
Income taxes paid	**(1,090)**	(1,285)	(819)	**(10,319)**
Net cash provided by operating activities	**12,369**	12,494	14,322	**117,097**
Cash flows from investing activities:				
Purchases of marketable securities	**(35)**	(208)	(20)	**(331)**
Proceeds from sales of marketable securities	**261**	35	122	**2,471**
Purchases of property, plant and equipment	**(5,024)**	(4,548)	(6,144)	**(47,563)**
Proceeds from sales of property, plant and equipment	**895**	1,668	1,817	**8,473**
Purchases of investment securities	**(80)**	(534)	(723)	**(757)**
Proceeds from sales of investment securities	**106**	286	1,230	**1,003**
Decrease in long-term loans receivable included in others in investments and other assets	**66**	1,290	118	**625**
Decrease (increase) in time deposits	**8,989**	(89)	377	**85,099**
Others, net	**456**	195	9	**4,317**
Net cash provided by (used in) investing activities	**5,634**	(1,905)	(3,214)	**53,337**
Cash flows from financing activities:				
Decrease in short-term borrowings	**(33,179)**	(5,721)	(4,115)	**(314,106)**
Proceeds from long-term loans	**26,690**	5,511	8,124	**252,674**
Repayment of long-term loans	**(11,399)**	(9,003)	(15,451)	**(107,914)**
Proceeds from bonds issued	**420**	100	—	**3,976**
Redemption of bonds	**(8,000)**	(3,000)	—	**(75,736)**
Purchases of treasury stock	**(1,235)**	(556)	(1)	**(11,692)**
Proceeds from sales of treasury stock	**66**	—	—	**625**
Others, net	**(3)**	(6)	(11)	**(28)**
Net cash used in financing activities	**(26,640)**	(12,675)	(11,454)	**(252,201)**
Effect of exchange rate changes on cash and cash equivalents	**102**	77	108	**966**
Net decrease in cash and cash equivalents	**(8,535)**	(2,009)	(238)	**(80,801)**
Cash and cash equivalents at beginning of year	**19,565**	21,587	21,825	**185,222**
Decrease in cash and cash equivalents resulting from exclusion of certain subsidiaries from consolidation	**—**	(13)	—	**—**
Cash and cash equivalents at end of year (Note 3)	**¥11,030**	¥19,565	¥21,587	**$104,421**

See accompanying notes to consolidated financial statements.

ISEKI & CO., LTD. and Consolidated Subsidiaries
March 31, 2004

1. Basis of Presenting Consolidated Financial Statements

ISEKI & CO., LTD. (the "Company") and its domestic subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. The Company's overseas subsidiaries maintain their accounts and records in conformity with accounting principles generally accepted in their respective countries of domicile.

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

Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at ¥105.63=US$1.00, the exchange rate prevailing on March 31, 2004. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and the significant companies which it controls directly or indirectly. The assets and liabilities of the initially consolidated subsidiaries are stated at fair value by the full value method as of their respective dates of acquisition of control.

The fiscal year-end of certain consolidated subsidiaries is December 31. Any significant differences in intercompany accounts and transactions arising from intervening intercompany transactions during the period from January 1 through March 31 have been adjusted, if necessary.

The differences between the cost and the underlying net equity in the net assets at the dates of acquisition of the consolidated subsidiaries are amortized by the straight-line method over a period within 20 years.

(b) Foreign currency translation

Foreign currency amounts are translated into yen at the rates of exchange in effect at the balance sheet date for monetary assets and liabilities, and at their historical rates for other assets and liabilities. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. Gain or loss resulting from the translation of foreign currency transactions is credited or charged to income as incurred.

Revenue and expense accounts of the overseas consolidated subsidiary and their balance sheet accounts (except for shareholders' equity) are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their respective historical exchange rates. The Company has presented foreign currency translation adjustments as a component of shareholders' equity and minority interests in consolidated subsidiaries in its consolidated financial statements.

(c) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful accounts at the estimated aggregate amount of probable bad debts plus an amount calculated at a rate based on their historical experience.

(d) Marketable securities and investment securities

Securities are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Cost of securities sold is determined principally by the moving average method. Non-marketable securities classified as other securities are carried at cost principally based on the moving average method.

(e) Inventories

Inventories are principally stated at the lower of cost determined by the average method, or market.

(f) Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation is computed by the declining-balance method over the estimated useful lives of the respective assets, principally except for tools and buildings (other than attachments to the buildings) acquired on or after April 1, 1998 which are depreciated by the straight-line method over their respective useful lives.

The principal estimated useful lives are as follows:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	2 to 17 years
Tools, furniture and fixtures	2 to 20 years

Depreciation of minor tangible assets whose acquisition cost was ¥100 thousand or more but less than ¥200 thousand are computed principally by the straight-line method over 3 years.

(g) Intangible assets

Intangible assets are stated at cost. Amortization is calculated by the straight-line method over the useful lives of the respective assets.

Expenditures relating to the development of computer software intended for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their useful lives of 5 years.

(h) Accrued retirement benefits

Accrued retirement benefits for employees have been provided principally at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets, as adjusted for net unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

The net retirement benefit obligation at transition is being amortized over a period of 15 years by the straight-line method. Prior service cost is amortized as incurred primarily by the straight-line method over the estimated average remaining years of service of the eligible employees of 10 to 13 years. Actuarial gain or loss is amortized commencing the year following the year in which the gain or loss is recognized primarily by the straight-line method over the estimated average remaining years of service of the eligible employees of 10 to 13 years.

Subject to approval at the shareholders' meeting, directors and statutory auditors of the Company and certain domestic consolidated subsidiaries are entitled to lump-sum payments under unfunded retirement benefit plans. The provision for retirement benefits for directors and statutory auditors has been made at estimated amounts based on the Company's internal regulations.

(i) Leases

Finance leases other than those which transfer the ownership of the leased property to the lessee are accounted for as operating leases.

(j) Income taxes

Deferred income taxes have been provided for temporary differences between the balances of assets and liabilities reported for financial purposes and the corresponding balances for tax reporting purposes.

(k) Revenue on installment sales

A domestic consolidated subsidiary handles the installment sales business. Unrealized profit on installment sales corresponding to the portion of installment receivables due in following years is deferred as a component of "other current liabilities" in the accompanying consolidated balance sheets.

(l) Derivative financial instruments and hedging activities

Derivatives are stated at fair value with any changes in fair value charged or credited to income for the period in which they arise, except for derivatives which meet the criteria for deferral hedge accounting under which realized gain or loss is deferred as an asset or a liability. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates.

(m) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible to cash subject to an insignificant risk of any change in their value and which were purchased with an original maturity of three months or less.

(n) Appropriation of retained earnings

Under the Commercial Code of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not reflect such appropriations.

3. Cash and Cash Equivalents

A reconciliation of cash and time deposits shown in the consolidated balance sheets and cash and cash equivalents shown in the consolidated statements of cash flows at March 31, 2004, 2003 and 2002 is as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Cash and time deposits	**¥13,466**	¥30,990	¥32,923	**$127,483**
Less: time deposits with original maturities exceeding three months	**(2,436)**	(11,425)	(11,336)	**(23,062)**
Cash and cash equivalents	**¥11,030**	¥19,565	¥21,587	**$104,421**

4. Securities

(a) Information regarding marketable securities classified as held-to-maturity debt securities as of March 31, 2004, 2003 and 2002 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2004			**2004**		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs	**¥455**	**¥458**	**¥3**	**$4,307**	**$4,335**	**$28**
Securities whose carrying value does not exceed their acquisition costs	**190**	**189**	**(1)**	**1,799**	**1,790**	**(9)**
Total	**¥645**	**¥647**	**¥2**	**$6,106**	**$6,125**	**$19**

	Millions of yen					
	2003			2002		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs	¥682	¥689	¥7	¥422	¥425	¥ 3
Securities whose carrying value does not exceed their acquisition costs	120	120	(0)	185	182	(3)
Total	¥802	¥809	¥7	¥607	¥607	¥(0)

(b) Information regarding marketable securities classified as other securities as of March 31, 2004, 2003 and 2002 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2004			**2004**		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥3,058**	**¥5,719**	**¥2,661**	**$28,950**	**$54,142**	**$25,192**
Others	**2**	**2**	**0**	**19**	**19**	**0**
Subtotal	**3,060**	**5,721**	**2,661**	**28,969**	**54,161**	**25,192**
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**118**	**101**	**(17)**	**1,117**	**956**	**(161)**
Subtotal	**118**	**101**	**(17)**	**1,117**	**956**	**(161)**
Total	**¥3,178**	**¥5,822**	**¥2,644**	**$30,086**	**$55,117**	**$25,031**

	Millions of yen					
	2003			2002		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥2,448	¥3,372	¥924	¥2,550	¥3,425	¥875
Others	1	1	0	10	10	0
Subtotal	2,449	3,373	924	2,560	3,435	875
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	768	697	(71)	1,536	1,232	(304)
Others	0	0	—	14	12	(2)
Subtotal	768	697	(71)	1,550	1,244	(306)
Total	¥3,217	¥4,070	¥853	¥4,110	¥4,679	¥569

The Company recorded loss on devaluation of impaired investments in marketable securities of ¥853 million and ¥1,432 million for the years ended March 31, 2003 and 2002, respectively. Loss on devaluation has been reflected in the carrying value presented in the above tables.

(c) Sales of securities classified as other securities for the years ended March 31, 2004, 2003 and 2002 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Carrying value of other securities sold	**¥104**	¥284	¥1,032	**$985**
Gain on sales	**63**	268	410	**596**
Loss on sales	**—**	—	480	**—**

(d) The carrying value of held-to-maturity debt securities and other securities with no determinable fair value at March 31, 2004, 2003 and 2002 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Held-to-maturity debt securities:				
Discounted financial bonds	**¥ 56**	¥ 56	¥ 58	**$ 530**
Other securities:				
Unlisted equity securities	**1,378**	1,350	814	**13,046**

(e) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities as of March 31, 2004 is summarized as follows:

	Millions of yen		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥ —	¥ 40	¥—
Other debt securities	277	385	—
Total	¥277	¥425	¥—

	Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	$ —	$ 378	$—
Other debt securities	2,622	3,645	—
Total	$2,622	$4,023	$—

5. Inventories

Inventories at March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Finished goods and merchandise	**¥33,175**	¥34,160	¥38,622	**$314,068**
Semifinished goods	**52**	65	70	**492**
Work in process	**4,614**	3,908	3,305	**43,681**
Raw materials and supplies	**1,080**	1,215	1,291	**10,224**
Total	**¥38,921**	¥39,348	¥43,288	**$368,465**

6. Short-Term Borrowings and Long-Term Debt

Short-term borrowings principally represent short-term notes, short-term bank borrowings on deeds, and bank overdrafts at average interest rates of 1.54%, 1.70% and 1.65% at March 31, 2004, 2003 and 2002, respectively.

The Company has concluded line-of-credit agreements with syndicate banks to reduce its interest-bearing debt, to achieve efficient financing and to improve its financial cash flows. The status of these lines of credit at March 31, 2004 was as follows:

	Millions of yen	Thousands of U.S. dollars
Lines of credit	¥25,000	$236,675
Short-term borrowings	5,000	47,335
Available credit	¥20,000	$189,340

Long-term debt at March 31, 2004, 2003 and 2002 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
3.60% unsecured bonds due 2003	**¥ —**	¥ 4,000	¥ 4,000	**$ —**
3.45% unsecured bonds due 2003	**—**	4,000	4,000	**—**
2.50% unsecured euro bonds in yen due 2002	**—**	—	3,000	**—**
0.87% unsecured bonds due 2007	**100**	100	—	**947**
0.45% unsecured bonds due 2006	**60**	—	—	**568**
0.57% unsecured bonds due 2008	**60**	—	—	**568**
0.67% unsecured bonds due 2010	**300**	—	—	**2,840**
Loans principally from banks and insurance companies due through 2023 at an average interest rate of 1.57%	**38,238**	22,947	26,440	**361,999**
	38,758	31,047	37,440	**366,922**
Less: current portion	**(10,539)**	(17,337)	(11,012)	**(99,773)**
	¥28,219	¥13,710	¥26,428	**$267,149**

Assets pledged as collateral for short-term borrowings of ¥14,405 million ($136,372 thousand) and long-term debt of ¥10,141 million ($96,005 thousand), including the current portion of ¥4,821 million ($45,640 thousand), at March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment:		
Land	¥29,807	$282,183
Buildings and structures	7,480	70,813
Machinery, equipment and vehicles	2,121	20,080
	39,408	373,076
Investment securities	2,280	21,585
	¥41,688	$394,661

Assets presented in the above table include the following assets under foundation mortgages at March 31, 2004:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment:		
Land	¥16,299	$154,302
Buildings and structures	1,985	18,792
Machinery, equipment and vehicles	2,121	20,080
	¥20,405	$193,174

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥10,539	$ 99,773
2006	6,992	66,193
2007	16,677	157,881
2008	2,185	20,685
2009	1,753	16,596
2010 and thereafter	612	5,794
Total	¥38,758	$366,922

7. Accrued Retirement Benefits

The Company and certain domestic consolidated subsidiaries have defined benefit plans, i.e., tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. In addition to the retirement benefit plans described above, the Company and certain domestic consolidated subsidiaries pay additional retirement benefits under certain conditions.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets at March 31, 2004, 2003 and 2002 for defined benefit plans of the Company and the consolidated subsidiaries:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Retirement benefit obligation	**¥(30,446)**	¥(30,443)	¥(31,269)	**$(288,232)**
Plan assets at fair value	**7,112**	6,281	7,507	**67,329**
Unfunded retirement benefit obligation	**(23,334)**	(24,162)	(23,762)	**(220,903)**
Unrecognized benefit obligation at transition	**16,085**	17,547	19,038	**152,277**
Unrecognized actuarial loss	**3,306**	3,054	1,694	**31,298**
Unrecognized prior service cost	**(725)**	(823)	(908)	**(6,864)**
Net retirement benefit obligation	**(4,668)**	(4,384)	(3,938)	**(44,192)**
Prepaid pension cost	**154**	127	131	**1,458**
Accrued retirement benefits	**¥ (4,822)**	¥ (4,511)	¥ (4,069)	**$ (45,650)**

The components of retirement benefit expenses for the years ended March 31, 2004, 2003 and 2002 are outlined as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Service cost	**¥1,403**	¥1,701	¥2,595	**$13,282**
Interest cost	**633**	761	1,818	**5,993**
Expected return on plan assets	**(105)**	(142)	(758)	**(994)**
Amortization:				
Net retirement benefit obligation at transition	**1,462**	1,490	2,007	**13,841**
Actuarial loss	**277**	146	123	**2,622**
Prior service cost	**(98)**	(98)	(84)	**(928)**
Other	**56**	68	134	**530**
Retirement benefit expenses	**3,628**	3,926	5,835	**34,346**
Gain on settlement of welfare pension fund plan	**—**	—	(2,220)	**—**
Additional retirement benefits	**12**	319	—	**114**
Total	**¥3,640**	¥4,245	¥3,615	**$34,460**

As allowed under the accounting standard for retirement benefits, certain domestic consolidated subsidiaries calculate accrued retirement benefits for their employees by simplified methods, and the related retirement benefit expenses for such subsidiaries are included in service cost presented in the above table.

During the year ended March 31, 2002, the Company and certain domestic consolidated subsidiaries settled a welfare pension fund ("WPF") for their employees based on the approval of the Minister of Health, Labour and Welfare which was granted effective March 25, 2002, and the Company and certain domestic consolidated subsidiaries recorded gain on settlement of the WPF of ¥2,220 million, which included in "others, net," a component of "other income (expenses)" presented in the consolidated statement of income for the year ended March 31, 2002 and it is consisted of the following factors:

	Millions of yen
Decrease in retirement benefit obligation	¥(13,685)
Decrease in unrecognized net retirement benefit obligation at transition	7,053
Decrease in unrecognized actuarial loss	4,412
Decrease in employees' accrued retirement benefits	¥ (2,220)

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2004, 2003 and 2002 are summarized as follows:

	2004	2003	2002
Discount rates	**2.0%**	2.5%	3.0%
Expected rates of return on plan assets	**2.5%**	3.0%	3.5%

Accrued retirement benefits in the accompanying consolidated balance sheets include accrued retirement benefits for directors and statutory auditors of the Company and certain domestic consolidated subsidiaries of the Company of ¥227 million ($2,149 thousand), ¥257 million and ¥139 million at March 31, 2004, 2003 and 2002, respectively.

8. Shareholders' Equity

The Commercial Code of Japan (the "Code") provides that an amount equivalent to at least 10% of cash dividends paid and bonuses to directors and statutory auditors, and exactly 10% of interim cash dividends paid be appropriated to the legal reserve until the sum of additional paid-in capital and the legal reserve equals 25% of stated capital. The Code also provides that additional paid-in capital and the legal reserve are not available for dividends, but may be used to reduce a capital deficit by resolution of the shareholders or may be capitalized by resolution of the Board of Directors. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders. Additional paid-in capital and the legal reserve are included in capital surplus and retained earnings, respectively, in the accompanying consolidated balance sheets and statements of shareholders' equity. The legal reserve of the Company was nil at March 31, 2004, 2003 and 2002.

Effective April 1, 2002, the Company and its consolidated subsidiaries adopted a new accounting standard for treasury stock and reversal of legal reserves. The effect of the adoption of this standard on the consolidated results of their operations for the year ended March 31, 2003 was immaterial.

9. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs amounted to ¥3,822 million ($36,183 thousand), ¥3,862 million and ¥3,972 million for the years ended March 31, 2004, 2003 and 2002, respectively.

10. Leases

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2004, 2003 and 2002, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen			Thousands of U.S. dollars		
	2004			**2004**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	**¥ 36**	**¥ 13**	**¥ 23**	**$ 341**	**$ 123**	**$ 218**
Machinery, equipment and vehicles	**2,185**	**1,078**	**1,107**	**20,685**	**10,205**	**10,480**
Tools, furniture and fixtures	**3,706**	**1,753**	**1,953**	**35,085**	**16,596**	**18,489**
	¥5,927	**¥2,844**	**¥3,083**	**$56,111**	**$26,924**	**$29,187**

	Millions of yen					
	2003			2002		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥ 30	¥ 8	¥ 22	¥ 21	¥ 4	¥ 17
Machinery, equipment and vehicles	1,281	594	687	1,448	793	655
Tools, furniture and fixtures	3,421	1,290	2,131	2,781	1,264	1,517
	¥4,732	¥1,892	¥2,840	¥4,250	¥2,061	¥2,189

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2004, 2003 and 2002 and corresponding depreciation and interest expenses computed by the straight-line method and the interest method, respectively, are summarized as follows:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Lease payments	**¥1,275**	¥1,003	¥1,081	**$12,070**
Depreciation	**1,169**	911	970	**11,067**
Interest expenses	**113**	99	81	**1,070**

Future minimum lease payments subsequent to March 31, 2004 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥1,123	$10,631
2006 and thereafter	2,036	19,275
Total	¥3,159	$29,906

Future minimum lease payments subsequent to March 31, 2004 for noncancelable operating leases were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥215	$2,035
2006 and thereafter	589	5,576
Total	¥804	$7,611

11. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries comprise corporate tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in a statutory tax rate of 42% for the years ended March 31, 2004, 2003 and 2002. Overseas subsidiaries are subject to the income taxes of the countries in which they operate.

The effective tax rates for the years ended March 31, 2004, 2003 and 2002 differ from the statutory tax rate for the following reasons:

	2004	2003	2002
Statutory tax rate	**42.0%**	42.0%	42.0%
Permanently non-deductible expenses	**3.0**	6.1	3.5
Per capita portion of inhabitants' taxes	**3.2**	8.0	4.5
Changes in valuation allowance for deferred tax assets	**(23.1)**	(20.7)	(10.9)
Others	**1.0**	1.6	0.5
Effective tax rates	**26.1%**	37.0%	39.6%

The tax effects of temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2004, 2003 and 2002 are presented below:

	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
Deferred tax assets:				
Tax loss carryforwards	**¥ —**	¥ 218	¥ 68	**$ —**
Accrued retirement benefits	**667**	474	390	**6,315**
Accrued bonuses for employees	**425**	220	206	**4,024**
Unrealized gain on sales of inventories	**926**	—	—	**8,766**
Others	**168**	105	132	**1,590**
Offset with deferred tax liabilities	**(105)**	(107)	(75)	**(994)**
Net deferred tax assets	**¥2,081**	¥ 910	¥ 721	**$19,701**
Deferred tax liabilities:				
Reserve for deferred taxation on compensation for expropriation or exchange of property	**¥ 188**	¥ 210	¥ 221	**$ 1,780**
Unrealized holding gain on securities	**1,058**	341	239	**10,016**
Land revaluation reserve	**7,131**	7,131	7,722	**67,509**
Others	**99**	98	—	**937**
Offset with deferred tax assets	**(105)**	(107)	(75)	**(994)**
Net deferred tax liabilities	**¥8,371**	¥7,673	¥8,107	**$79,248**

In accordance with a law on amendments to local tax laws, etc., announced on March 31, 2003, the Company and its consolidated subsidiaries applied a statutory tax rate of 40% to the calculation of deferred tax assets and liabilities at March 31, 2003 which are expected to be reversed on April 1, 2004 and thereafter. The effect of this change in the statutory tax rate was to decrease deferred tax assets and deferred tax liabilities at March 31, 2003 and net income for the year then ended by ¥6 million, ¥379 million and ¥1 million, respectively, and to increase net unrealized holding gain on securities and land revaluation reserve at March 31, 2003 by ¥17 million and ¥357 million, respectively.

12. Derivatives

The Company and certain consolidated subsidiaries utilize derivative financial instruments to reduce foreign exchange rate and interest-rate risk and manage them efficiently. As principals to the derivative transactions, the Company and certain consolidated subsidiaries utilize forward foreign exchange contracts to hedge the fluctuation risk of foreign currency assets and liabilities resulting from their import and export operations. In addition, the Company and certain consolidated subsidiaries utilize interest-rate swaps to hedge the fluctuation risk of interest rates on borrowings.

The Company and certain consolidated subsidiaries utilize derivatives to hedge the risk of fluctuation in foreign currency exchange rates and interest rates and, thus, they do not utilize derivative financial instruments for speculative or short-term trading purposes.

The Company and certain consolidated subsidiaries are exposed to certain market risk arising from their forward foreign exchange contracts and interest-rate swap agreements. They are also exposed to the risk of credit loss in the event of nonperformance by the counterparties with respect to forward foreign exchange contracts or interest-rate swap agreements; however, the Company and certain consolidated subsidiaries do not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

The Company and certain consolidated subsidiaries have established internal policies which include procedures and authorization processes for derivatives and comply fully with these guidelines.

At March 31, 2003, the fair value of the open derivatives positions not accounted for by hedge accounting was as follows:

	Millions of yen			
	2003			
	Contract/ agreement value, total	Contract/ agreement value more than one year	Fair value	Unrealized gain (loss)
Interest-rate swaps (fixed/paid—variable/received)	¥15,000	¥—	¥(187)	¥(187)

Disclosure of the corresponding information as of March 31, 2004 and 2002 has been omitted because all derivatives positions at these dates were accounted for by hedge accounting.

13. Amounts Per Share

	Yen			U.S. dollars
	2004	2003	2002	**2004**
Net income:				
Basic	**¥ 13.90**	¥ 4.56	¥ 7.79	**$0.13**
Cash dividends applicable to the year	**3.00**	—	—	**0.03**
Net assets	**226.85**	210.44	201.12	**2.15**

Diluted net income per share for the years ended March 31, 2004, 2003 and 2002 is not presented because there were no potentially dilutive shares.

Up to the year ended March 31, 2002, basic net income per share or net loss per share was computed based on the net income or loss reported in the consolidated statements of income or operations and the weighted-average number of shares of common stock outstanding during each year. Net assets per share were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share for the year ended March 31, 2004 and 2003 has been computed based on the net income available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. The amounts per share of net assets at March 31, 2004 and 2003 have been computed based on the net assets available for distribution to the shareholders and the number of shares of common stock outstanding at each balance sheet date.

If the previous method of computation had been followed at March 31, 2003 and for the year then ended, net income per share and the amount per share of net assets would have been ¥4.56 and ¥210.59, respectively.

14. Contingent Liabilities

The contingent liabilities of the Company and its consolidated subsidiaries as of March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans	¥10,152	$96,109
Notes receivable discounted with banks	191	1,808
Notes receivable endorsed	710	6,722

15. Land Revaluation

Effective March 31, 2001, the Company revalued its land held for business use in accordance with the "Law on Land Revaluation." Differences on land revaluation have been accounted for as land revaluation reserve under shareholders' equity at the net amount of the relevant tax effect. The method followed for land revaluation was determined in accordance with the "Enforcement Act Concerning Land Revaluation."

The carrying value of the land exceeded the corresponding fair value by ¥4,560 million ($43,170 thousand), ¥3,350 million and ¥1,117 million at March 31, 2004, 2003 and 2002.

16. Subsequent Events

(1) Appropriation of retained earnings

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved by the shareholders at a meeting held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends (¥3 = U.S.$0.03 per share)	¥656	$6,210

(2) Business alliance with Hitachi Capital Corporation

At the Board of Directors meeting of Isec Co., Ltd. ("Isec"), a consolidated subsidiary of the Company, held on April 12, 2004, Isec decided to carve out its credit business through establishing a new subsidiary and transferring 90% of its outstanding shares in the new subsidiary to Hitachi Capital Corporation ("HCC") and 10% to the Company.

The Company decided to develop a business alliance with HCC in relation to credit sales transactions involving agricultural machinery and concluded a master agreement with HCC effective April 12, 2004.

Report of Independent Auditors

The Board of Directors
ISEKI & CO., LTD.

We have audited the consolidated balance sheets of ISEKI & CO., LTD. and consolidated subsidiaries as of March 31, 2004, 2003 and 2002, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles accompanying used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of ISEKI & CO., LTD. and consolidated subsidiaries at March 31, 2004, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

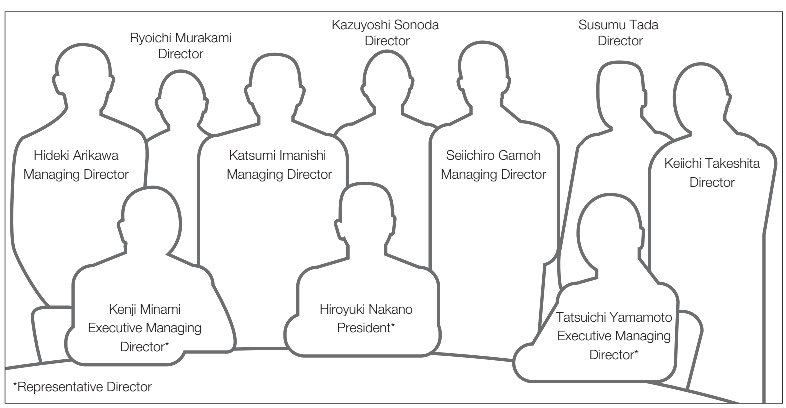
The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

June 30, 2004

Shin Nihon & Co

Directors and Auditors
(As of June 29, 2004)

Board of Directors



Corporate Auditors

From left: Hiroshi Ueno, Keiji Itoh, Eisaku Tokuda, Hiroyoshi Enokida

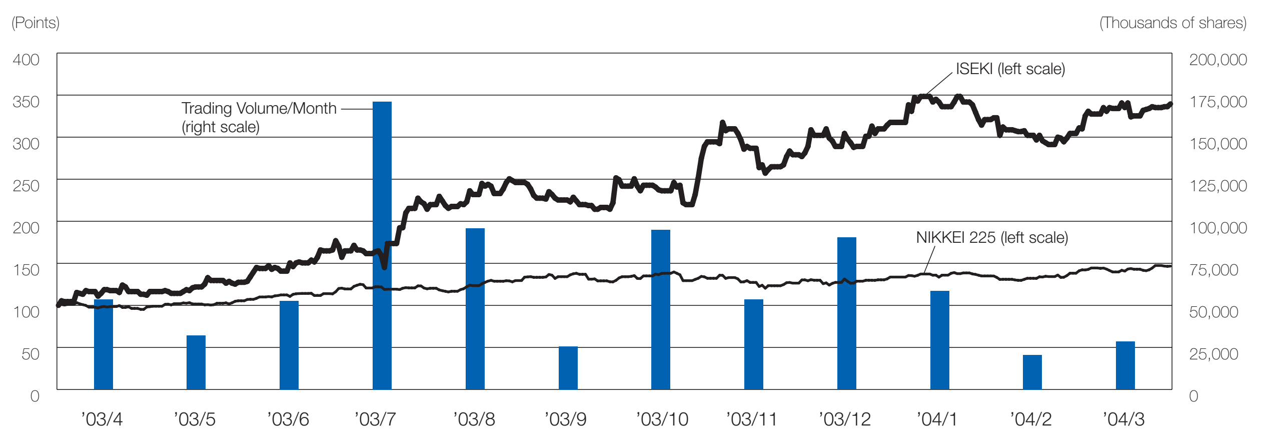
President	Hiroyuki Nakano*
Executive Managing Directors	Kenji Minami* Tatsuichi Yamamoto*
Managing Directors	Katsumi Imanishi Seiichiro Gamoh Hideki Arikawa
Directors	Keiichi Takeshita Kazuyoshi Sonoda Ryoichi Murakami Susumu Tada
Corporate Auditors	Eisaku Tokuda Hiroshi Ueno Hiroyoshi Enokida Keiji Itoh

*Representative Director

Corporate Data
(As of March 31, 2004)

Head Office	700 Umaki-cho, Matsuyama, Ehime 799-2692, Japan Tel: 81-89-979-6111 Fax: 81-89-978-6440
Tokyo Headquarters	3-14, Nishi-Nippori 5-chome, Arakawa-ku, Tokyo 116-8541, Japan Tel: 81-3-5604-7602 Fax: 81-3-5604-7701
Home Page	http://www.iseki.co.jp/
Founded	August 1926
Paid-in Capital	¥22,534 million
Number of Employees (Consolidated)	6,644
Securities Traded	Tokyo Stock Exchange (1st Section) Osaka Securities Exchange (1st Section)
Transfer Agent and Registrar	The Chuo Mitsui Trust and Banking Company, Limited 33-1, Shiba 3-chome, Minato-ku, Tokyo, Japan
Shares Issued and Outstanding	225,054,088
Number of Shareholders	26,956
Independent Auditor	Shin Nihon & Co.

Stock Performance and Trading Volume Per Month



	'03/4	'03/5	'03/6	'03/7	'03/8	'03/9	'03/10	'03/11	'03/12	'04/1	'04/2	'04/3
Opening Price (¥)	¥ 93	¥105	¥116	¥151	¥200	¥222	¥200	¥275	¥239	¥295	¥293	¥279
High (¥)	116	122	154	209	231	226	278	308	300	323	298	313
Low (¥)	91	102	115	131	193	188	196	226	239	285	263	279
Closing Price (¥)	102	116	151	195	224	202	268	254	289	292	277	309
Trading Volume/Month (1,000 shares)	53,502	31,999	52,688	171,153	95,766	25,639	94,746	53,365	90,362	58,477	20,587	28,427

Share Price on April 1, 2003 (¥91) = 100

Forward-Looking Statements

This annual report contains statements regarding future plans and strategies of Iseki & Co., Ltd. (the Company), as well as the Company's future performance. These statements are not statements of past facts but are based on judgments made by the Company on the basis of information known at the time. Therefore, readers should refrain from drawing conclusions based only on these statements regarding the future performance of the Company. The actual future performance of the Company may be influenced by economic trends, competition in the industrial sectors where it conducts its operations, foreign currency exchange rates, and changes in taxation and other systems. For these reasons, these forward-looking statements are subject to latent risks and uncertainties.

ISEKI & CO., LTD.
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URL: http://www.iseki.co.jp/

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