ISEKI

2007 Annual Report

Year ended March 31, 2007

Improving Agricultural Environments around the World

ISEKI & CO., LTD.

Profile: Management Principles

During the more than 80 years since its establishment in 1926 as a specialist manufacturer of agricultural equipment, ISEKI & CO., LTD. has contributed to the modernization of agriculture in Japan. Over this period, the Company has taken the lead in the development and introduction of agricultural equipment aimed at making farming more efficient and less labor-intensive.

Agriculture has a vital role in addressing such issues as the increasing global population, food shortages, Japan's food self-sufficiency ratio and the protection of national boundaries. As a manufacturer of agricultural equipment, we believe that the scope of our mission in society will continue to expand.

Our core philosophy is to contribute to agriculture in Japan and the rest of the world by providing products that delight our customers. We will continue to expand our activities based on this principle.

Contents

Cautionary Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements in which certain risks and uncertainties are inherent and actual performance may differ materially from the expectations indicated herein. Readers are therefore cautioned not to rely exclusively on these statements, which take into account the best information that is available to management at the time. The Company undertakes no responsibility to disclose revisions to these statements owing to future developments, which may reflect changes in the environment and unexpected climatic events.

The illustrations in this annual report

The illustrations in this annual report and on the front cover are of drawings that won prizes in our annual "Sanae National Children's Drawing Contest," the theme of which is "Farming Families." Iseki places great importance on family relationships and is committed to encouraging families in the agricultural business.

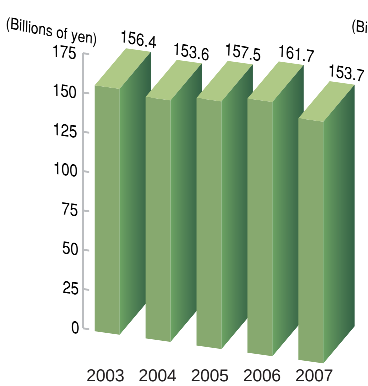
Consolidated Financial Highlights

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2007 and 2006

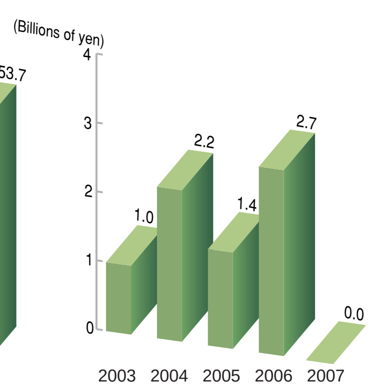
	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Net sales	**¥153,729**	¥161,744	**$1,301,795**
Operating income	**2,244**	6,319	**19,002**
Income before income taxes and minority interests	**808**	4,688	**6,842**
Net income	**18**	2,662	**152**
Total assets	**181,363**	180,440	**1,535,803**
Net assets	**55,724**	55,092	**471,877**
Per share data:	Yen		U.S. dollars
Net income per share	**¥ 0.08**	¥ 12.21	**$ 0.00**
Diluted net income	**0.07**	10.82	**0.00**
Net assets per share	**239.71**	243.91	**2.03**
Cash dividends	**–**	3.00	**–**
	(%)		
Return on equity	**0.0** %	5.1 %	
Return on assets	**0.0**	1.5	
Shareholders' equity ratio	**29.8**	30.5	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118.09 to US$1.00, the approximate rate of exchange at March 31, 2007.

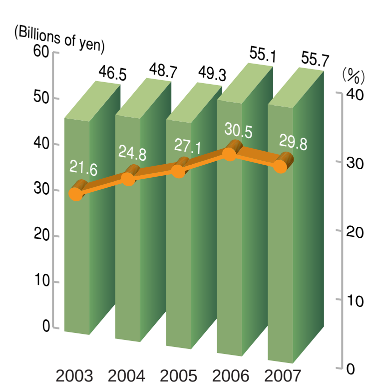
Net Sales



Net Income



Net Assets/Equity Ratio (right scale)



To Our Shareholders

Targeting Further Progress through Our Contribution to Agriculture in Japan and around the World

In the midst of transition in Japan's agricultural landscape, rice-farming equipment will continue to play an important role in the industry. We plan to target further growth by continuing to contribute to agriculture in Japan while pursuing additional expansion overseas.

Inappropriate Accounting Methods and Measures for the Future

Following the discovery of the use of inappropriate accounting measures at some of our consolidated subsidiaries, we revised our financial statements for the fiscal years ending March 31, 2004, 2005, and 2006 in May 2007. We also restated our securities report. In response, the Tokyo Stock Exchange and the Osaka Securities Exchange individually requested that our company submit a report on implemented improvements. The Osaka Securities Exchange also relegated our stock to its supervisions post for the period from May 24 to June 7 of 2007. We would like to express our deep regrets for any inconvenience caused our shareholders and other stakeholders.

We have carefully reflected on this series of incidents and initiated the following measures to ensure that they are never repeated:

1) Introduced compliance-oriented management
2) Established improved organizational system and work process for the Development and Production Division, which supervises and monitors manufacturing subsidiaries
3) Reinforced the monitoring system
4) Planned personnel reallocation in the Administrative Division

Through the implementation of these measures, we are endeavoring to rebuild confidence in our Group.

Fiscal 2007 Operating Performance

In the fiscal year ended March 31, 2007, the net sales of ISEKI & CO., LTD., declined 5.0%. Domestic sales decreased, particularly for agricultural equipment, against the backdrop of the slump in the agricultural market. Overseas sales were also down year on year, reflecting inventory adjustments by our OEM customer in the North American market.

Profits also contracted under pressure from the drop in gross profit due to lower sales and the rising cost of materials.

Financially, the Company continued to trim down its balance sheet. However, total assets expanded due to higher inventory levels caused by the decline in sales of domestic agricultural equipment and other factors.

The Group is focusing its overall efforts to address these issues and effect a quick improvement in profitability and to strengthen its balance sheet.

Business Strategy Outlook

Our basic medium-to long-term strategies are to expand sales and market share in our domestic and overseas markets, strengthen product competitiveness, and improve our consolidated financial structure. Our business plan has been aligned with these strategies.

The four major points of our current plan are as follows:

1) We expect domestic agricultural equipment sales to be flat.
2) In our overseas business, reflecting the favorable local sales conditions, we plan to expand sales in Europe. In addition, our OEM customer in North America are slated to complete their inventory adjustments within fiscal 2008, following which orders are forecast to return to normal levels.
3) We will deal with rising domestic inventory levels in response to falling sales by curtailing production. After carrying out a major reduction in inventories, we expect to resume normal production schedules in fiscal 2009.
4) In fiscal 2008 we are targeting improvement in our profit structure by reducing personnel expenses through such measures as voluntary retirement.

The TJW series of large semi-crawler tractors

Expanding Overseas Sales

Expanding sales and market shares is positioned as a key business strategy for the Iseki Group. Overseas markets, in particular, are seen as the main source of Group growth. Overseas sales were ¥18.8 billion in fiscal 2007, generating 12.3% of net sales. Our goal is to rapidly raise this proportion of overseas sales to 15%. Our growth strategies by individual overseas markets are as follows:

1) Raise our market share in North America by launching new products
2) In Europe, increase market share by expanding our involvement in landscaping equipment and by cultivating new markets and demand for compact agricultural equipment
3) Address the China market by introducing products, chiefly such rice-cultivation equipment as combine harvesters and rice transplanters, by developing our sales structure, and by expanding sales
4) In other Asian markets, launch products that meet their needs, enhance our sales network in this region, and expand sales

Drive to Increase Japanese Market Share to 20%

Japan’s agricultural industry is undergoing dynamic change in response to alterations in government policy. In particular, "Direct Payment for Land-Extensive Farming", which limits support for farmers with more than a specific area of farmland, is having a great impact in preventing a reduction in the large number of small farmers that exist in Japan. Such measures have also caused demand to drop substantially in the domestic agricultural equipment market since 2006.

However, we believe this decline in demand to be only temporary. We expect that the steady decline in the number of farmers and the progressive aging of the farming population will lead to the increased use of large-scale agricultural equipment. Moreover, along with the retirement of baby boomers, there has been growth in the number of hobby farmers with vegetable patches. This trend has contributed to an increase in our sales of tiller equipment.

We are striving to grasp accurately these changes in our business environment and to take our customers’ point of view in introducing products that incorporate their needs. During fiscal 2007, we unveiled two large tractors—95 horsepower and 105 horsepower—and made model changes to our mainstay rice transplanter series. We plan to successively launch new models, mainly large-scale equipment, with the goal of raising our current 18% share of the domestic agricultural equipment market to 20%.

Corporate Governance


The HJ series of combine harvesters

The Company is making every effort to strengthen its corporate governance and to disclose information appropriately and in a timely manner. We view these measures as vital to maintaining positive relations with our stakeholders, including shareholders, business partners, members of regional communities and employees. We also keep in close contact with business partners, sales agents and employees so that we remain aware of currently shared issues and implement management principles thoroughly.

Nevertheless, as mentioned at the beginning of the message, the use of inappropriate accounting measures by some members of the Group suggests that our efforts have been insufficient. Therefore, we are giving high priority to the establishment of an internal control system for our Group to aid in the implementation of compliance-oriented management. We are committed in achieving steady progress toward this goal.

To Our Shareholders


The PGP series of rice transplanters

Effective October 1, 2007, I assumed the position of president of ISEKI & CO., LTD. I intend to dedicate all my energies to achieve the further growth and development of the Group, continuing to build on the traditions of this specialist manufacturer of agricultural equipment, which boasts over 80 years of history since its establishment in 1926.

The business climate for the domestic agricultural equipment industry is forecast to remain stagnant. Moreover, we continue to see significant change in the environment for global agriculture, such as the sharp rise in grain prices and climatic changes. In these conditions, we can expect further intensification in competition in our domestic and overseas markets. We plan to move quickly and accurately to respond to these changes. Our goal will be to achieve improved performance and to contribute to the development of agriculture in Japan and globally.

In meeting these challenges, we look forward to the continued support of our shareholders.

October 2007

S. Gamo.

Seiichiro Gamo
President

Corporate Governance

(1) Basic Strategies for Corporate Governance

The main purpose of our management system is to respond quickly and accurately to changes in our business climate and to maintain fair business operations. Achieving stable growth in shareholder value is another top priority of management. To maintain positive relations with our stakeholders, including shareholders, business partners, members of regional communities, and employees, we are endeavoring to expand and improve our corporate governance. We acknowledge the importance of establishing an internal control system that provides stakeholders with important information in a timely manner and of reinforcing corporate governance throughout the Group. Based on that recognition, we plan to establish administrative rules for Group companies and a reporting structure to maintain fair business practices and share information.

(2) Details of Corporate Structures and Progress with Internal Control System

Details of corporate structures

The Board of Directors comprises ten directors and its meetings are also attended by four corporate auditors, three of whom are outside corporate auditors. The board considers and makes decisions on important matters related to our business as well as providing oversight on the management of business operations by corporate officers.

The Directors' Operation Committee is made up of ten directors and makes decisions concerning operations and various measures to promote business. The committee also monitors business progress. It reports its decisions to the Board of Directors.

The Company also has implemented a corporate officer system. A total of six corporate officers manage daily business on an individual business site basis, implementing quick and appropriate decision-making to execute business operations.

Establishing a Group internal control system

The Company has given the establishment of a Group internal control system top priority among its management strategies and is working steadily toward that goal. To implement a system enabling the efficient execution of the business responsibilities of directors, the Company has set up business allocation rules and various rules and systems for the internal control and other systems. In addition, the Directors' Operation Committee examines all aspects of important business matters. To document management activities, the Company has established a system to appropriately store and file information related to job execution, such as the minutes of Board of Directors meetings or approval documents, based on rules for the Board of Directors and for documentation.

To reinforce our compliance system, we set up the Management Supervisory Committee on June 1, 2007. The committee is chaired by the Company president and includes all directors as members as well as all corporate auditors as observers. It monitors progress with measures to prevent reoccurrences of compliance incidents on a monthly basis and checks whether compliance is being thoroughly implemented.

Effective June 1, 2007, we formed a cross-organizational Compliance Team under the director in charge of compliance. The team is striving to prevent the occurrence of illegal or inappropriate incidents by raising knowledge and awareness of compliance among directors and employees.

Also on June 1, 2007, we established a Management Control Section in the Development and Production Division. Reporting directly to the senior manager of the Development and Production Division, the section is responsible for regular monitoring functions. Also on the same day, we created a Management Control Section in the Business Division. The section is directly under the senior manager of the Business Division, who has been tasked with overseeing the regular monitoring function for sales subsidiaries and affiliates. The Company took this step to expand and strengthen the internal supervisory system for sales subsidiaries and affiliates to ensure the correctness of financial information and accounting procedures.

(3) Relationship of Company and Outside Corporate Auditors

The Company’s three outside corporate auditors come from financial institutions that are major shareholders of the Company. Our outside corporate auditors have no personal, capital or business ties with the Company or any other conflicts of interest.

(4) Independent Public Auditing

The Company has appointed Ernst & Young Shin Nihon as its independent public audit firm. There are no special relationships between the Company and Ernst & Young Shin Nihon that would represent a conflict of interest. The Company and Ernst & Young Shin Nihon have signed an audit agreement based on which Ernst & Young Shin Nihon receives its compensation. The Company’s corporate auditors and the audit firm regularly hold liaison meetings, at which they exchange information related to the audit plan, scope, and other related matters. Other than their regular liaison meetings, the corporate auditors and Ernst & Young Shin Nihon meet as necessary to share information on audit examination items and processes.

Certified Public Accountants Assigned to the Company

Takeshi Koyama	(Ernst & Young Shin Nihon)
Kenji Nishihara	(Ernst & Young Shin Nihon)
Yoshiaki Ito	(Ernst & Young Shin Nihon)

Since all of the CPAs have been assigned to the ISEKI & CO., LTD. account for seven years or less, the number of consecutive years they have been working on the account is not noted here.

Ernst & Young Shin Nihon has voluntarily agreed not to assign any of its employees to work on the account for more than a fixed number of years.

Composition of Ernst & Young Shin Nihon Auditing Team
3 CPAs
9 junior accountants and trainees

(5) Establishing a Risk Management System

Addressing the overall risk exposure of the Group, the Company has set up risk management standards and rules and monitoring and response systems to prevent avoidable risk and to minimize losses.

(6) Internal Auditing and Oversight of Auditors

The Board of Corporate Auditors has four members, including three outside corporate auditors. The corporate auditors conduct audits of associated companies and each business division and section. Through these audits they confirm whether business is being carried out properly in accordance with various laws and ordinances and rules and regulations and provide guidance. The Company also has established an Operation Supervising Department to handle internal audit affairs. Based on internal audit rules, the department carries out accounting, business, and compliance audits of associated companies and each business division and section.

(7) Compensation for Directors and Auditors

During the fiscal year under review, the compensation paid by the Company to its directors, corporate auditors, and independent public audit firm amounted to the following:

1) Details of Directors' Compensation	
Compensation paid to directors	¥260 million
Compensation paid to corporate auditors	¥70 million

2) Details of Independent Public Audit Firm's Compensation	
Compensation paid for services falling under Article 2, Paragraph 1, of the Certified Public Accountant Law	¥40 million
Compensation paid for other services (Advice regarding internal control system assessment)	¥4 million

(8) Actions Taken to Improve Corporate Governance during the Prior Year

In April 2006, the Company set up an internal communications system for the Group, which is being utilized based on an established set of rules. Also in April 2006, to continue progress with the establishment of an internal control system, the Company created an Internal Control Department and set up an Internal Control Promotion Committee comprising all directors, the senior managers of businesses, and an outside advisor (CPA).

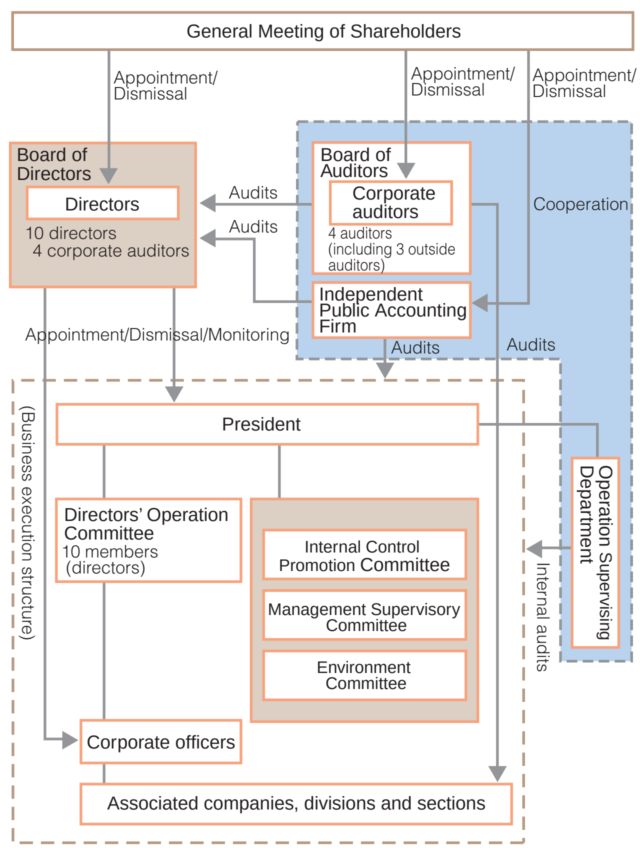
In addition, as previously mentioned, Iseki formed a Management Supervisory Committee, effective June 1, 2007. At the same time, the Company introduced the companies and employees of its business partners to its internal communications system for use as an Ethics Hotline, revising the system to enable it to be used to report on inappropriate, illegal or unethical behavior.

We, Iseki, believe that the timely disclosure of information is essential to building a good relationship with our stakeholders. To that end, we endeavor to proactively disclose information. The Company actively holds information meetings on quarterly performance and carries out overseas investor relations activities.

The Company also addresses environmental issues. It has an Environment Committee and regularly publishes an environmental report (last published August 2006). The entire Group works together actively on environmental programs and has been assessed by an independent institution as an organization that "is recognized as being particularly advanced in its environmental activities."

We, Iseki, also publish an Intellectual Property Report (last published July 2006) disclosing our research and development activities and strategies for strengthening our intellectual assets.

(9) Diagram Illustrating the Company's Corporate Governance Structure



Contributing to Shaping the Future of Global Agriculture

Iseki sees raising agricultural productivity in Japan and the rest of the world as its mission, thereby playing its part in helping to alleviate potential food shortages. In the midst of the growing importance of agriculture around the world, the Group is targeting further growth.

As the worldwide population continues to increase, providing sufficient food remains a topic of major global concern. One issue is how expanding demand for biofuel and the rapid onslaught of global warming and other environmental problems will affect the ability to expand food supplies. Agriculture will play a growing role as it attempts to address such serious issues. Iseki sees raising agricultural productivity in Japan and the rest of the world as its mission, thereby playing its part in helping to alleviate potential food shortages. As we continue our work to meet the wide-ranging needs of customers in Japan and other countries, we will contribute to shaping the future of agriculture.

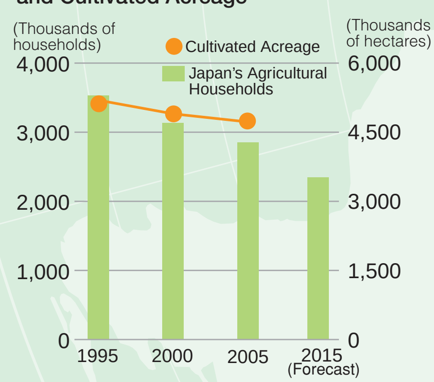
Japan

■Development, production and sales of agricultural equipment and the expansion of agriculture-related business, including facility construction and agricultural raw material sales

With the number of Japanese agricultural households in decline and the average age of agricultural employees increasing, Iseki faces ongoing challenges in its domestic market. In addition, while global food supplies are forecast to grow tighter over the medium to long term, Japan's food self-sufficiency ratio is one of the lowest among leading advanced nations. For this reason, in 2005 the Japanese government announced its Basic Plan for Food, Agriculture and Rural Areas, which aims to expand domestic agricultural production and sets food self-sufficiency targets to be achieved by fiscal 2015. A new law to stabilize management by next-generation agriculturists went into effect in Japan in 2006. The overriding aims of the law are to educate the core generation of farmers who are taking over farm operations about agricultural production and to raise international competitiveness in agriculture by implementing income support policies for people who are taking over farm operations.

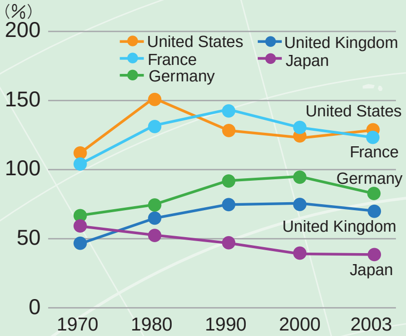
Domestic demand for agricultural equipment fell sharply during 2006 and 2007 due to a hold off in purchasing in view of these conditions. Over the medium- to long-term, we expect the market to remain flat or to decline slightly. This forecast is based on the continued shift to large-scale farming and growing demand for large-scale agricultural equipment.

Japan's Agricultural Households and Cultivated Acreage



Sources: Ministry of Agriculture, Forestry and Fisheries of Japan, Census of Agriculture and Forestry, Outlook for the Agricultural Structure, Statistics of cultivated and planted acreage

Self-Sufficiency Ratios of Leading Advanced Nations (calorie basis)



Source: Food Balance Sheet, Ministry of Agriculture, Forestry and Fisheries of Japan

Riding mower customized for the European market

Europe

Sales of compact tractors and riding mowers

The Iseki Brand has been sold in Europe for approximately 40 years. Europe is generally considered a mature market, where demand for compact tractors and mowers is stable. However, in recent years market needs have changed. Riding-mower demand has shifted from models powered by gasoline engines to those using diesel engines, and an increasing number of compact tractor owners are replacing secondhand equipment with new models. Amid this shift in the market, sales of the new model of riding mower introduced in 2006 have been strong.

China

Sales of combine harvesters and rice transplanters

In the People's Republic of China, to close the economic gap between cities and agricultural communities, the government has implemented a number of modernization measures to raise income levels in agricultural communities and ensure stable food production volumes. The government has also introduced an agricultural equipment promotion law to encourage the modernization of agricultural equipment. Demand for Japanese combine harvesters is expanding rapidly, and measures are under way to increase the demand for rice transplanters. Consequently, we anticipate acceleration in demand for agricultural equipment from this market.

Other Asian Markets

Sales of rice-farming equipment (tractors, combine harvesters and rice transplanters)

Rice is a staple foodstuff in Asia, and this area accounts for approximately 90% of global rice production. Ongoing mechanization in South Korea and Taiwan continues to drive the modernization of agriculture, and demand for large agricultural equipment that is highly efficient and durable is increasing as a result. Along with the growth in the population and economic strength of Thailand, Indonesia, and other Southeast Asian countries, agricultural mechanization is progressing, presenting a major market opportunity.

Compact tractor for the North American market

North America

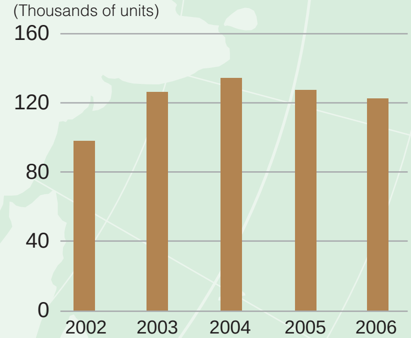
Sales of compact tractors and riding mowers

In the U.S. market for compact tractors, strong economic performance is fueling replacement demand, and the number of housing starts is rising. These factors caused compact tractor sales to surge from 83 thousand in 2000 to 122 thousand in 2006. Although the U.S. economic outlook is uncertain, demand is expected to remain at approximately 120 thousand from 2007 onward.

In this market, Iseki supplies AGCO Corporation, a leading global agricultural equipment manufacturer, with compact tractors on an OEM basis. We expect our regional sales to continue to grow based on this business alliance.

U.S. Market for Compact Tractors

(Thousands of units)

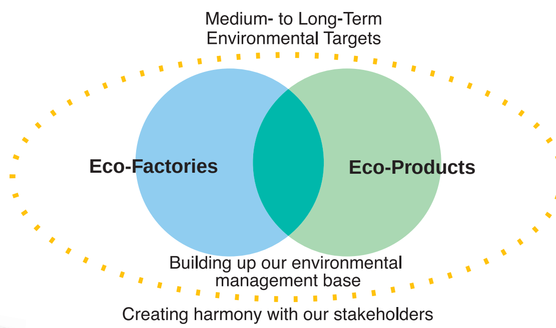


Source: U.S. Association of Equipment Manufacturers
Notes: 1. Engines of 50PS (PTO horsepower of 40) or less
2. Excludes mowers

Australia

Sales of compact tractors and riding mowers

Environmental Initiatives



We believe that agriculture, which forms the base for our operations, is one of the gentlest industries, blessed as it is by the sun and the rain. Our connection with the natural environment brings our responsibilities to society into sharp relief, in a way that other industries may not appreciate. This awareness underpins the environmental preservation initiatives of the entire Iseki Group.

Based on our management concept of an "axis of agriculture and agricultural machinery," we have created the Green Circle Eco-Vision, which underpins the environmental preservation efforts through which we aim to achieve harmony between nature and society. On this foundation, we have created an environmental concept, a basic environmental policy and environmental conduct guidelines. We have also established medium- to long-term environmental objectives to be accomplished by 2010, which we are approaching from the four angles outlined here.

■ Eco-Friendly Factories—Production Activities that Place Little Burden on the Environment

To reduce CO_2 emissions per production output, we have mounted initiatives to prevent global warming, reduce water usage, minimize waste material and control chemical substances.

■ Eco-Friendly Products—Provision of Environment-Friendly Products

We are promoting and expanding our use of environment-friendly design. We do so by conducting life-cycle assessments to evaluate, and then minimize, the environmental load at each stage, involving raw materials, production, distribution, use, recovery, breakdown and processing. We also are working to minimize the environmental impact of packaging, to promote green procurement and to foster environment-friendly agriculture.

■ Building Our Environmental Management Base

We are extending the scope of our environmental management system beyond production divisions to encompass the entire Group. In March 2007, our Tokyo headquarters acquired ISO 14001 certification.

■ Creating Harmony with Stakeholders

In addition to our promotion of environmental education for our employees, environmental volunteers conduct "green" activities at various locations, and we transmit and provide information over the Internet.

Iseki—The Technology Company

As a pioneer in agricultural equipment, Iseki boasts many developments that parallel the development of agriculture in Japan, such as the introduction of the nation's first integrated system of rice-cultivation equipment. In such ways, we have earned a reputation as "Iseki the technology company," steadily developing new products ahead of the pack and delivering them throughout the world.

Although Japanese agriculture is currently in a state of change, we are developing large-scale equipment that we expect to be used in the medium to long term by the people who are now taking over in the farm industry. To make agriculture more efficient and less labor-intensive, in addition to our mainstay rice-cultivation equipment we are developing equipment for types of agriculture that have substantial opportunities to save labor through mechanization, such as dryland crops and vegetables. Iseki is also developing components related to agricultural equipment.

For the export market, an area of current emphasis, we are developing products for the lawn and garden machinery markets in North America and Europe, which continue to expand. We are also developing products that meet the specific needs of other markets. These include combine harvesters and rice transplanters for China and tractors for Southeast Asia.

■ R&D Structure

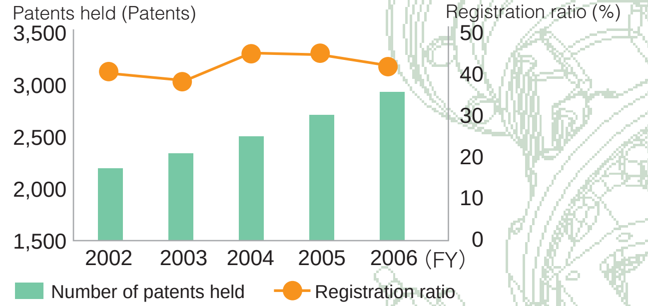
In all our technical endeavors, we abide by four keywords: satisfaction, safety, reliability and the environment. We continually pursue R&D that is superior in terms of product development capability, quality and cost competitiveness. Iseki's R&D system comprises the head office, whose facilities develop components for agricultural equipment and facilities, and affiliated companies, which develop engines, compact agricultural equipment, food processing machinery and such precision machinery as testing equipment.

Rounding out our development network are N.V. ISEKI EUROPE S.A., our North American representative office, ISEKI-CHANGZHOU MFG. CO., LTD., in China, and our Thai representative office. We have established these R&D bases with a view to picking up the pace of technical development in Europe, North America, China and other parts of Asia.

■ Intellectual Property Rights

The Company's emphasis on technology and the development of its R&D capabilities have delivered numerous results. The development divisions and the

Number of Patents Held and Registration Rates



Patent Approval Rates and Published Patents

Highest patent approval rate in all industries for three consecutive years

Fiscal Year	2003	2004	2005	2006
Iseki	68.8%	84.6%	83.7%	90.4%
Ranking	10th	1st	1st	1st

Patent approval rate = Number of patents approved / (Number of patents approved + Number of patents refused + Number of patents withdrawn or abandoned)
Number of patents withdrawn or abandoned = Number of patents withdrawn or abandoned after receiving notice of reason for patent refusal

Also No. 1 in the number of published patents in the agriculture and fisheries sector for six consecutive years

Fiscal Year	2000	2001	2002	2003	2004	2005
Ranking	1st	1st	1st	1st	1st	1st

Source: Japan Patent Office annual reports for 2002 to 2007

Company as a whole promote invention proposal activities, and the number of invention proposals increases every year. Public patent statistics reflect Iseki's R&D prowess.

According to the 2007 annual report published by the Japan Patent Office (JPO) in July 2007, Iseki ranked first among all industries for the number of patents granted in 2006. This is the third consecutive year we have ranked No. 1, evincing the high quality of our published patents. At the same time, the JPO announced the number of published patents in the agriculture and fisheries sector in 2005. In this category, Iseki ranked first for the sixth consecutive year. Such results indicate that the Iseki Group leads its competitors in technical invention and patent applications.

Among these patent applications are many promising technologies that have yet to be incorporated into products. Such Iseki-owned rights contribute substantially to assuring the superiority of Iseki products by protecting the capabilities and functions that are sales points for products already available and highlight new technology research directions when new products are developed.

Since Iseki's establishment, its engineers have won numerous awards, such as those bestowed by the Japan Institute of Invention and Innovation, for their contributions to the development, education and implementation of technologies related to agricultural equipment. The spirit of pushing R&D frontiers that began with the Company's founder—who was also an engineer—imbued Iseki with a tradition of success in transforming intellectual creative endeavors into practical technologies that endures to this day. We will carry on this tradition as we seek to maximize our technical skills to develop products that offer high performance and durability, ease of use and reliability, and price competitiveness.

Directors and Corporate Auditors

(As of October 1, 2007)

Back row, from left: Nobuo Fujita, Susumu Tada, Kazuyoshi Sonoda, Keiichi Takeshita, Motonobu Kikuchi, Akio Kikuchi
Front row, from left: Hideki Arikawa, Kenji Minami, Seiichiro Gamo, Hiroyuki Nakano

Board of Directors

President	Seiichiro Gamo*
Vice President	Kenji Minami*
Executive Managing Director	Hideki Arikawa*
Managing Directors	Keiichi Takeshita
	Kazuyoshi Sonoda
	Motonobu Kikuchi
	Susumu Tada
Executive Advisor	Hiroyuki Nakano*
Directors	Akio Kikuchi
	Nobuo Fujita

*Representative Director

Corporate Auditors

Corporate Auditors

Hiroshi Ueno

Hiroyoshi Enokida

Keiji Ito

Norio Yasunaga

Back row, from left: Keiji Ito, Norio Yasunaga
Front row, from left: Hiroshi Ueno, Hiroyoshi Enokida

Restatement of Securities Report *(Yuka Shoken Hokokusho)*

After the discovery of the use of inappropriate accounting methods at some of our manufacturing subsidiaries in which amounts that should have been booked as costs of goods sold were being recorded in work in process, Iseki conducted an in-depth investigation of their accounting methods. On May 24, 2007, based on those findings, the Company announced corrected financial statements for the fiscal years ended March 31, 2004, 2005, and 2006 and submitted restated securities reports to the Kanto Local Finance Bureau. We extend our sincere apologies to shareholders for this incident.

In accordance with the restatement of the securities reports, the Company made the following corrections to the financial figures in this annual report:

Effect of Corrections

(Millions of yen)

		Net sales	Operating income	Net income	Total assets	Net assets
Year ended March 31, 2004	Before corrections	153,624	6,374	3,077	197,156	49,576
Consolidated financial statements	After corrections	153,624	5,811	2,206	196,367	48,706
Year ended March 31, 2005	Before corrections	157,462	6,517	2,966	184,478	51,726
Consolidated financial statements	After corrections	157,462	5,090	1,379	182,183	49,269
Year ended March 31, 2006	Before corrections	161,744	7,459	3,757	183,831	58,645
Consolidated financial statements	After corrections	161,744	6,319	2,662	180,440	55,092

Financial Section

Consolidated Five-Year Financial Summary

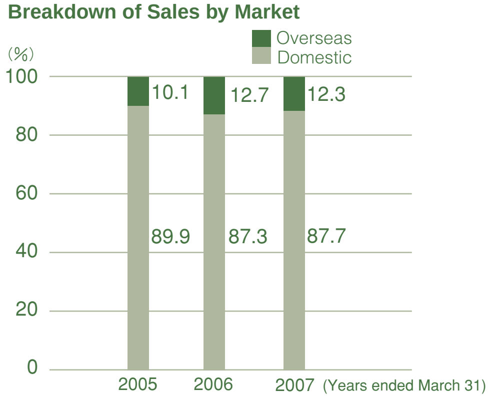
ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2007	2006	2005	2004	2003	**2007**
For the year:						
Net sales	**¥153,729**	¥161,744	¥157,462	¥153,624	¥156,381	**$1,301,795**
Cost of sales	**105,309**	109,088	106,555	103,664	105,374	**891,769**
Selling, general and administrative expenses	**46,176**	46,337	45,817	44,149	44,814	**391,024**
Operating income	**2,244**	6,319	5,090	5,811	6,193	**19,002**
Net income	**18**	2,662	1,378	2,206	1,010	**152**
Capital expenditures	**5,693**	5,330	5,364	5,080	4,919	**48,209**
Depreciation and amortization	**3,590**	3,677	3,944	4,483	4,898	**31,408**
At year-end:						
Total assets	**181,363**	180,440	182,183	196,367	215,164	**1,535,803**
Total net assets	**55,724**	55,092	49,268	48,705	46,483	**471,877**
Number of employees	**6,765**	6,680	6,665	6,644	6,743	
Per share data:	Yen					U.S. dollars
Net income	**¥ 0.08**	¥ 12.21	¥ 6.32	¥ 9.96	¥ 4.56	**$0.00**
Diluted net income	**0.07**	10.82	5.92	—	—	**0.00**
Net assets	**239.71**	243.91	227.52	222.86	210.44	**2.03**
Cash dividends	—	3.00	3.00	3.00	—	—
Ratios:	%					
Return on equity	**0.0%**	5.1%	2.8%	4.6%	2.2%	
Return on assets	**0.0**	1.5	0.7	1.1	0.5	
Shareholders' equity to total assets	**29.8**	30.5	27.1	24.8	21.6	

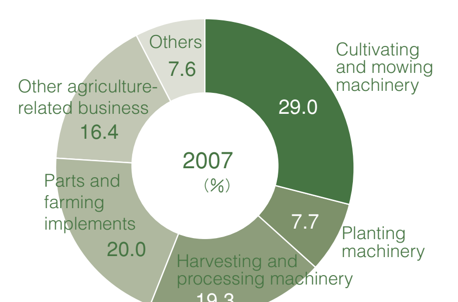
Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥118.09 to US$1.00, the approximate rate of exchange at March 31, 2007.

Definitions: Return on equity = 100 x net income / average net shareholders' equity in the fiscal period
Return on assets = 100 x net income / average total assets in the fiscal period
Shareholders' equity to total assets = 100 x (total net assets - minority interests in consolidated subsidiaries) / total assets

Breakdown of Sales by Market



Composition of Sales by Product Category



(Year ended March 31, 2007)

Overview

In fiscal 2007, ended March 31, 2007, the domestic market for agricultural equipment slumped because of continued postponement of purchases by farmers. On the other hand, exports of agricultural equipment remained firm.

In this environment, the Iseki Group sought to meet increasingly diverse customer needs by rounding out its new product offerings and through proactive sales efforts, aiming to expand domestic and export sales. Despite these efforts, net sales decreased 5.0%, or ¥8.0 billion, to ¥153.7 billion.

Overseas

Overseas sales declined 8.1%, or ¥1.7 billion, to ¥18.8 billion. Of this amount, sales of finished products amounted to ¥17.4 billion, down 7.9%, or ¥1.5 billion, and sales of parts and others dropped 10.7%, or ¥0.2 billion, to ¥1.4 billion.

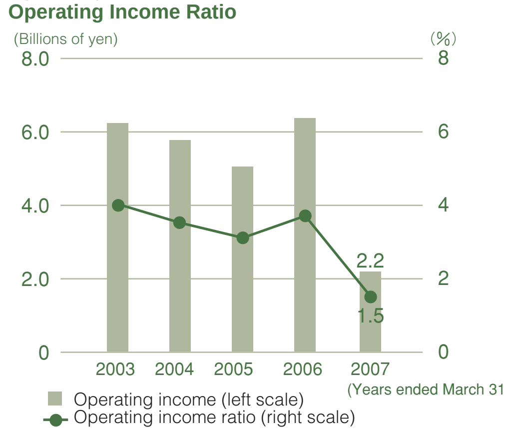
Looking at sales by region, sales in North America declined under the impact of inventory adjustments by Iseki's OEM customer. In Europe, strong sales of the new model of riding mower introduced in 2006 supported overall sales growth. Sales also expanded in China, other Asian markets, and Australia.

Domestic

Sales in the Japanese market slid 4.5%, or ¥6.3 billion, to ¥134.9 billion, with mainstay agricultural equipment sales amounting to ¥68.6 billion, down 7.3%, or ¥5.4 billion. In cultivating and mowing machinery, which includes tractors and cultivators, sales of cultivators rose, but sales of the main product, tractors, decreased, resulting in overall sales declining 6.5%, or ¥2.1 billion, to ¥29.3 billion. Although sales of the newly launched PZ rice transplanter series were favorable, overall sales of planting machinery (rice transplanters and vegetable transplanters) declined 1.2%, or ¥0.1 billion, to ¥10.6 billion. Sales of harvesting and processing machinery decreased 10.1%, or ¥3.2 billion, to ¥28.7 billion, reflecting lower sales of such core products as combine harvesters and dryers.

In areas of business other than agricultural equipment, sales of parts for maintenance and farming implements contracted 2.5%, to ¥29.8 billion. For agricultural facilities and other agriculture-related products, sales were on a par with those of the previous fiscal year, climbing 0.4%, to ¥24.9 billion. Of this amount, construction of agricultural facilities generated ¥6.3 billion, up 23.6%. Sales in other businesses edged down 2.7%, to ¥11.6 billion.

Operating Income and Operating Income Ratio



Costs, Expenses and Earnings

Operating income declined 64.5%, or ¥4.1 billion, to ¥2.2 billion. Lower earnings drove down gross profit ¥2.6 billion, rising material costs added ¥0.7 billion, and a drop in the manufacturing gross margin pushed expenses up ¥0.8 billion.

Income before income taxes and minority interests fell 82.8%, or ¥3.9 billion, to ¥0.8 billion. Factors included a ¥4.1 billion drop in operating income and a ¥0.2 billion increase in the loss on disposal of inventory assets. Among positive factors, extraordinary losses were lower than those booked in the previous fiscal year.

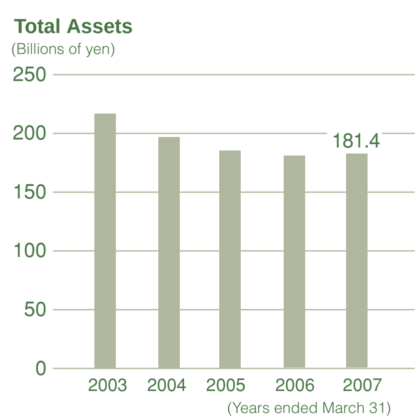
As a result, net income after adjusting for income taxes and deferred income taxes amounted to ¥18 million, down 99.3%, or ¥2.7 billion.

Financial Condition

Total assets at the end of the term were ¥181.4 billion, up ¥1.0 billion. Looking at a breakdown, current assets edged down ¥0.5 billion year on year. The principal factors in this decline were a ¥2.8 billion decrease in notes and accounts receivable, a ¥5.7 billion increase in inventories, a ¥1.7 billion decline in cash and deposits, and a ¥1.7 billion decline in deferred income taxes and other current assets. Fixed assets expanded ¥1.4 billion from the previous fiscal year, because property, plant and equipment, mainly machinery and equipment and vehicles, increased ¥1.5 billion.

Liabilities rose ¥1.8 billion due to an increase in short-term borrowings and other factors.

Net assets decreased ¥0.9 billion, to ¥55.7 billion. The shareholders' equity ratio was 29.8%.



Cash Flows

Cash provided by operating activities during the fiscal year was ¥0.9 billion, representing a decline of ¥3.1 billion from the preceding term. Factors involved included income before income taxes and minority interests of ¥0.8 billion, a ¥5.6 billion decline in inventories, and a ¥2.9 billion drop in sales receivables.

Net cash used in investing activities was ¥4.7 billion, up ¥2.4 billion from the previous term. Increased capital investment in property, plant and equipment contributed to this increase.

Net cash provided by financing activities was ¥2.2 billion, up ¥5.2 billion from net cash used in the previous term. The main factors involved were an increase in short-term borrowings and the repayment of long-term loans.

Basic Strategies of the Medium-Term Business Plan

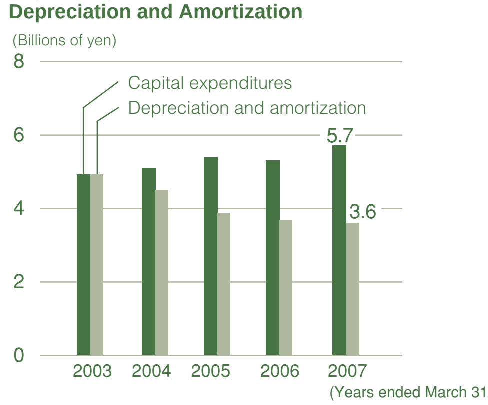
Amid the dynamic fluctuations in the business climate, the Group is accelerating its reform of its earnings structure, aiming to build a corporate structure that can provide a stable earnings stream for the future. To achieve this goal, the Group plans to maintain or expand its sales by increasing the degree of its customers' satisfaction by supplying them with customer-oriented, low-cost and high-quality products and services. In addition, the Group is pursuing the establishment of a low-cost structure as well as a strengthening of its financial structure.

In particular, against the backdrop of heightened competition in the market, the Group is focusing its collective power on expanding sales and increasing market share and has made these goals a top management priority.

The following four basic strategies have been established to achieve the medium-term business plan's targets:

1. Expand overseas sales
2. Achieve a 20% share of the Japanese market for agricultural equipment
3. Further strengthen product competitiveness
4. Improve our consolidated financial structure by raising profitability and cash flow

Capital Expenditures and Depreciation and Amortization



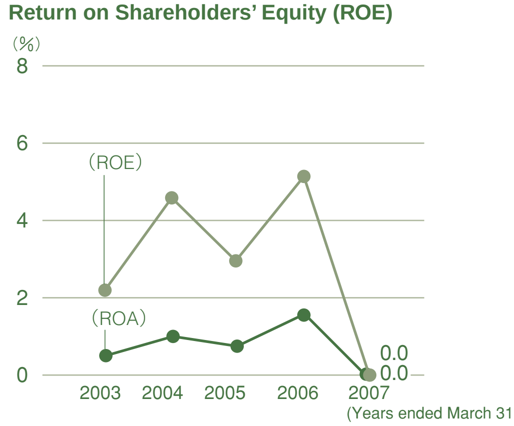
1. Overseas Sales
In addition to planning expansion, mainly in the European market, we are strengthening our sales service organization in high-growth potential Asian markets and working to establish Iseki in those markets.

2. Domestic Market
We will establish an organization that can rapidly and accurately respond to the dynamic changes in the agricultural equipment market, providing for the diverse needs of our customers. In particular, we will strengthen our measures for dealing with the operators taking over farms, working to acquire new customers.

3. Product Competitiveness
We are developing and introducing products that accurately meet the needs of our customers. Besides strengthening our efforts in the compact tractor field, we are endeavoring to further improve our services with the goal of reinforcing our overall product competitiveness.

4. Consolidated Financial Structure
We are striving to strengthen the profitability and cash flow of consolidated subsidiaries, thereby improving the consolidated financial structure. Moreover, we are continuing efforts to hold down interest-bearing debt and improve the Group's overall efficiency of cash and other assets.

Return on Assets (ROA) and Return on Shareholders' Equity (ROE)



Dividends

The Company recognizes the payment of dividends to shareholders as a vital management issue. Its policy is to target stable and increasing shareholder dividends while taking into overall consideration not only improving consolidated financial performance but also enhancing the Group's financial structure, expanding operations and responding collectively to changes in its operating environment. Despite this basic policy, the Company decided to forego dividends in fiscal 2007 due to the substantial deterioration in performance.

Outlook for Fiscal 2008

In fiscal 2008, we expect that Japan's economy will continue its prolonged expansion for the time being, despite the slowdown in the U.S. economy. On the other hand, the agricultural environment is anticipated to remain difficult, with competition intensifying in the agricultural equipment market. Against this backdrop, the Group will aggressively introduce new merchandise and work to attain sales.

We forecast net sales to decline ¥4.7 billion from fiscal 2007, to ¥149.0 billion. Of this amount, we anticipate domestic sales to account for ¥128.0 billion, down ¥6.9 billion. Overseas, endeavoring to expand sales especially in Europe, we expect sales to increase ¥2.2 billion year on year, to ¥21.0 billion.

We expect that operating income will decline ¥1.1 billion, dropping to ¥1.1 billion. Although production restrictions and other measures taken to deal with the adjustments in retail inventories will temporarily take their toll on operating income, the situation will be rectified through reform of the earnings structure. Measures taken include efforts to reduce personnel expenses by introducing voluntary retirement. Nevertheless, we anticipate a loss of ¥2.3 billion.

In fiscal 2008, we plan again to forego dividends as in fiscal 2007. We are concentrating our full efforts on strengthening our earnings base to enable stable earnings, with the goal of reinstating dividend payments quickly.

Consolidated Balance Sheets

ISEKI & CO., LTD. and Consolidated Subsidiaries
As of March 31, 2007, 2006, 2005 and 2004

	Millions of yen				Thousands of U.S. dollars (Note 1)
Assets	**2007**	2006	2005	2004	**2007**
Current assets:					
Cash and deposits *(Note 4)*	**¥ 5,271**	¥ 6,972	¥ 8,202	¥ 13,466	**$ 44,635**
Marketable securities *(Note 7)*	**23**	146	285	277	**195**
Notes and accounts receivable *(Note 6)*	**31,951**	34,743	37,015	46,910	**270,565**
Allowance for doubtful accounts	**(125)**	(126)	(671)	(757)	**(1,059)**
Inventories *(Note 8)*	**45,511**	39,799	38,909	38,359	**385,393**
Deferred income taxes *(Note 12)*	**579**	1,330	1,768	1,377	**4,903**
Prepaid expenses and other current assets	**3,162**	4,005	4,113	3,819	**26,776**
Total current assets	**86,372**	86,869	89,621	103,451	**731,408**
Property, plant and equipment at cost:					
Land *(Notes 9 and 11)*	**50,562**	50,174	50,460	50,400	**428,165**
Buildings and structures *(Notes 9 and 11)*	**45,687**	44,265	43,465	42,986	**386,883**
Machinery, equipment and vehicles	**43,502**	42,351	42,384	43,416	**368,380**
Tools, furniture and fixtures	**26,043**	25,430	25,067	25,352	**220,535**
Other	**243**	581	563	930	**2,058**
Construction in progress	**1,140**	1,812	1,767	1,162	**9,653**
Less accumulated depreciation	**(87,024)**	(85,944)	(84,334)	(84,441)	**(736,929)**
Property, plant and equipment, net	**80,153**	78,669	79,372	79,805	**678,745**
Investments and other assets:					
Investment securities *(Note 7)*	**8,744**	9,165	7,967	7,624	**74,046**
Investments in unconsolidated subsidiaries and affiliates	**79**	70	437	75	**669**
Intangible assets	**987**	1,037	1,102	1,059	**8,358**
Deferred income taxes *(Note 12)*	**697**	650	530	477	**5,902**
Other	**5,023**	4,639	4,061	4,654	**42,535**
Allowance for doubtful accounts	**(692)**	(659)	(907)	(778)	**(5,860)**
Total investments and other assets	**14,838**	14,902	13,190	13,111	**125,650**
Total assets	**¥181,363**	¥180,440	¥182,183	¥196,367	**$1,535,803**

Liabilities and net assets	Millions of yen 2007	2006	2005	2004	Thousands of U.S. dollars (Note 1) 2007
Current liabilities:					
Short-term borrowings *(Note 11)*	**¥ 24,150**	¥ 19,885	¥ 20,306	¥ 39,337	**$ 204,505**
Current portion of long-term debt *(Note 11)*	**7,665**	18,390	7,391	10,539	**64,909**
Notes and accounts payable, trade *(Note 6)*	**42,353**	41,622	44,493	39,938	**358,650**
Notes and accounts payable, construction *(Note 6)*	**960**	169	498	506	**8,129**
Accrued expenses	**4,104**	4,314	4,478	3,982	**34,753**
Accrued income taxes *(Note 12)*	**613**	1,250	1,862	1,751	**5,191**
Other current liabilities	**3,181**	4,313	3,688	6,176	**26,937**
Total current liabilities	**83,026**	89,943	82,716	102,229	**703,074**
Long-term liabilities:					
Long-term debt *(Note 11)*	**26,501**	17,040	33,180	28,219	**224,414**
Accrued retirement benefits for employees *(Note 13)*	**5,186**	4,809	4,514	4,822	**43,915**
Accrued retirement benefits for directors and corporate auditors	**306**	259	226	227	**2,592**
Deferred income taxes *(Note 12)*	**8,822**	9,861	8,742	8,420	**74,706**
Other long-term liabilities	**1,798**	1,878	2,035	2,286	**15,225**
Total long-term liabilities	**42,613**	33,847	48,697	43,974	**360,852**
Total liabilities	**125,639**	123,790	131,413	146,203	**1,063,926**
Minority interests in consolidated subsidiaries	**–**	1,558	1,502	1,459	**–**
Contingent liabilities *(Note 18)*					
Net assets:					
Shareholders' equity *(Note 14)*:					
Common stock:					
Authorized – 696,037,000 shares					
Issued – 226,536,329 shares at March 31, 2007 and 2006; and 225,054,088 shares at March 31, 2005 and 2004	**22,785**	22,785	22,534	22,534	**192,946**
Capital surplus	**12,815**	12,815	11,664	11,645	**108,519**
Retained earnings	**5,548**	6,207	4,372	3,648	**46,981**
Treasury stock, at cost: 690,113 shares in 2007, 666,946 shares in 2006, 8,512,787 shares in 2005, and 6,507,892 shares in 2004	**(163)**	(154)	(1,941)	(1,395)	**(1,380)**
Total shareholders' equity	**40,985**	41,653	36,629	36,432	**347,066**
Valuation and translation adjustments:					
Net unrealized holding gain on securities *(Note 7)*	**2,598**	2,896	1,956	1,584	**22,000**
Land revaluation reserve *(Note 10)*	**10,527**	10,527	10,697	10,697	**89,144**
Foreign currency translation adjustments	**28**	16	(14)	(8)	**237**
Total valuation and translation adjustments	**13,153**	13,439	12,639	12,273	**111,381**
Minority interests in consolidated subsidiaries	**1,586**	–	–	–	**13,430**
Total net assets	**55,724**	55,092	49,268	48,705	**471,877**
Total liabilities and net assets	**¥181,363**	¥180,440	¥182,183	¥196,367	**$1,535,803**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006, 2005 and 2004

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	2007
Net sales	¥153,729	¥161,744	¥157,462	¥153,624	$1,301,795
Cost of sales	105,309	109,088	106,555	103,664	891,769
Gross profit	48,420	52,656	50,907	49,960	410,026
Selling, general and administrative expenses *(Note 15)*	46,176	46,337	45,817	44,149	391,024
Operating income	2,244	6,319	5,090	5,811	19,002
Other income (expenses):					
Interest and dividend income	359	403	332	254	3,040
Interest expense	(1,015)	(1,000)	(1,277)	(1,621)	(8,595)
Gain on sales of investment securities, net *(Note 7)*	–	720	311	63	–
Loss on impairment of fixed assets *(Notes 3 and 9)*	(26)	(506)	–	–	(220)
Gain on sale of credit business	–	–	461	–	–
Loss on sales or disposal of property, plant and equipment, net	(266)	(225)	(277)	(419)	(2,252)
Loss on liquidation of a consolidated subsidiary *(Note 16)*	–	(523)	–	–	–
Loss on prior year's adjustment *(Note 16)*	–	(178)	–	–	–
Other, net	(488)	(322)	(1,008)	(405)	(4,133)
Income before income taxes and minority interests	808	4,688	3,632	3,683	6,842
Income taxes *(Note 12)*:					
Current	867	1,656	2,517	2,298	7,342
Deferred	(113)	320	(292)	(880)	(957)
	754	1,976	2,225	1,418	6,385
Income before minority interests	54	2,712	1,407	2,265	457
Minority interests in consolidated subsidiaries	36	50	29	59	305
Net income	¥ 18	¥ 2,662	¥ 1,378	¥ 2,206	$ 152

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006, 2005 and 2004

	Millions of yen										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Land revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2003	¥ 22,534	¥ 11,599	¥ 1,442	¥ (303)	¥ 35,272	¥ 514	¥ 10,697	¥ –	¥ 11,211	¥ –	¥ 46,483
Net income for the year	–	–	2,206	–	2,206	–	–	–	–	–	2,206
Gain on disposition of treasury stock	–	46	–	143	189	–	–	–	–	–	189
Purchases of treasury stock	–	–	–	(1,235)	(1,235)	–	–	–	–	–	(1,235)
Net changes in items other than shareholders' equity	–	–	–	–	–	1,070	–	(8)	1,062	–	1,062
Balance at March 31, 2004	¥ 22,534	¥ 11,645	¥ 3,648	¥ (1,395)	¥ 36,432	¥ 1,584	¥ 10,697	¥ (8)	¥ 12,273	¥ –	¥ 48,705
Net income for the year	–	–	1,378	–	1,378	–	–	–	–	–	1,378
Cash dividends	–	–	(654)	–	(654)	–	–	–	–	–	(654)
Gain on disposition of treasury stock	–	19	–	17	36	–	–	–	–	–	36
Purchases of treasury stock	–	–	–	(563)	(563)	–	–	–	–	–	(563)
Net changes in items other than shareholders' equity	–	–	–	–	–	372	–	(6)	366	–	366
Balance at March 31, 2005	¥ 22,534	¥ 11,664	¥ 4,372	¥ (1,941)	¥ 36,629	¥ 1,956	¥ 10,697	¥ (14)	¥ 12,639	¥ –	¥ 49,268
Exercise of stock acquisition rights of convertible bonds	251	250	–	–	501	–	–	–	–	–	501
Net income for the year	–	–	2,662	–	2,662	–	–	–	–	–	2,662
Cash dividends	–	–	(650)	–	(650)	–	–	–	–	–	(650)
Gain on disposition of treasury stock	–	901	–	1,840	2,741	–	–	–	–	–	2,741
Purchases of treasury stock	–	–	–	(46)	(46)	–	–	–	–	–	(46)
Increase in treasury stock resulting from merger	–	–	–	(7)	(7)	–	–	–	–	–	(7)
Reversal of land revaluation reserve	–	–	(177)	–	(177)	–	177	–	177	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–	940	(347)	30	623	–	623
Balance at March 31, 2006	¥ 22,785	¥ 12,815	¥ 6,207	¥ (154)	¥ 41,653	¥ 2,896	¥ 10,527	¥ 16	¥ 13,439	¥ –	¥ 55,092
Reclassified balance at March 31, 2006	22,785	12,815	6,207	(154)	41,653	2,896	10,527	16	13,439	1,558	56,650
Net income for the year	–	–	18	–	18	–	–	–	–	–	18
Cash dividends	–	–	(677)	–	(677)	–	–	–	–	–	(677)
Purchases of treasury stock	–	–	–	(9)	(9)	–	–	–	–	–	(9)
Net changes in items other than shareholders' equity	–	–	–	–	–	(298)	–	12	(286)	28	(258)
Balance at March 31, 2007	**¥22,785**	**¥12,815**	**¥5,548**	**¥ (163)**	**¥40,985**	**¥2,598**	**¥10,527**	**¥ 28**	**¥13,153**	**¥1,586**	**¥55,724**

	Thousands of U.S. dollars *(Note 1)*										
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Land revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2006	$192,946	$108,519	$52,562	$(1,304)	$352,723	$24,524	$89,144	$135	$113,803	$ –	$466,526
Reclassified balance at March 31, 2006	192,946	108,519	52,562	(1,304)	352,723	24,524	89,144	135	113,803	13,193	479,719
Net income for the year	–	–	152	–	152	–	–	–	–	–	152
Cash dividends	–	–	(5,733)	–	(5,733)	–	–	–	–	–	(5,733)
Purchases of treasury stock	–	–	–	(76)	(76)	–	–	–	–	–	(76)
Net changes in items other than shareholders' equity	–	–	–	–	–	(2,524)	–	102	(2,422)	237	(2,185)
Balance at March 31, 2007	**$192,946**	**$108,519**	**$46,981**	**$(1,380)**	**$347,066**	**$22,000**	**$89,144**	**$237**	**$111,381**	**$13,430**	**$471,877**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2007, 2006, 2005 and 2004

	Millions of yen				Thousands of U.S. dollars (Note 1)
	2007	2006	2005	2004	**2007**
Cash flows from operating activities:					
Income before income taxes and minority interests	**¥ 808**	¥ 4,688	¥ 3,632	¥ 3,683	**$ 6,842**
Adjustments for:					
Depreciation and amortization	**3,590**	3,677	3,944	4,483	**30,401**
Loss on impairment of fixed assets	**26**	506	–	–	**220**
Gain on sales of investment securities, net	**–**	(720)	(311)	(63)	**–**
Interest and dividend income	**(359)**	(403)	(332)	(254)	**(3,040)**
Interest expense	**1,015**	1,000	1,277	1,621	**8,595**
Loss on sales or disposal of property, plant and equipment, net	**266**	225	277	419	**2,252**
Gain on sale of credit business	**–**	–	(461)	–	**–**
Change in operating assets and liabilities:					
Decrease (increase) in notes and accounts receivable	**2,897**	862	(927)	310	**24,532**
(Increase) decrease in inventories	**(5,594)**	(791)	(551)	1,704	**(47,371)**
Increase (decrease) in notes and accounts payable, trade	**748**	(2,982)	4,555	2,517	**6,334**
Other, net	**(809)**	1,622	(1,252)	404	**(6,850)**
Subtotal	**2,588**	7,684	9,851	14,824	**21,915**
Interest and dividends received	**356**	404	333	255	**3,015**
Interest paid	**(1,025)**	(1,000)	(1,300)	(1,772)	**(8,680)**
Proceeds from insurance claim	**–**	–	–	152	**–**
Income taxes paid	**(1,016)**	(3,071)	(2,581)	(1,090)	**(8,603)**
Net cash provided by operating activities	**903**	4,017	6,303	12,369	**7,647**
Cash flows from investing activities:					
Purchases of marketable securities	**(23)**	(4)	(11)	(35)	**(195)**
Proceeds from sales of marketable securities	**146**	283	259	261	**1,236**
Purchases of property, plant and equipment	**(5,471)**	(5,162)	(5,048)	(5,024)	**(46,329)**
Proceeds from sales of property, plant and equipment	**991**	1,646	1,292	895	**8,392**
Purchases of investment securities	**(100)**	(0)	(589)	(80)	**(847)**
Proceeds from sales of investment securities	**–**	943	554	106	**–**
Decrease in long-term loans receivable included in investments and other assets—other	**30**	17	35	66	**254**
Decrease in time deposits with original maturities exceeding three months	**96**	17	2,037	8,989	**813**
Proceeds from sale of credit business	**–**	–	10,410	–	**–**
Other, net	**(387)**	(26)	(134)	456	**(3,277)**
Net cash (used in) provided by investing activities	**(4,718)**	(2,286)	8,805	5,634	**(39,953)**
Cash flows from financing activities:					
Increase (decrease) in short-term borrowings	**4,255**	(471)	(18,971)	(33,179)	**36,032**
Proceeds from long-term loans	**18,180**	4,966	4,036	26,690	**153,950**
Repayment of long-term loans	**(19,437)**	(7,861)	(12,244)	(11,399)	**(164,595)**
Proceeds from bonds issued	**–**	1,000	10,000	420	**–**
Redemption of bonds	**(100)**	(40)	(40)	(8,000)	**(847)**
Purchases of treasury stock	**(9)**	(46)	(563)	(1,235)	**(76)**
Proceeds from sales of treasury stock	**–**	56	49	66	**–**
Dividends paid	**(677)**	(650)	(654)	–	**(5,732)**
Other, net	**(4)**	(3)	(4)	(3)	**(34)**
Net cash provided by (used in) financing activities	**2,208**	(3,049)	(18,391)	(26,640)	**18,698**
Effect of exchange rate changes on cash and cash equivalents	**2**	(43)	56	102	**17**
Net decrease in cash and cash equivalents	**(1,605)**	(1,361)	(3,227)	(8,535)	**(13,591)**
Cash and cash equivalents at beginning of year	**6,590**	7,803	11,030	19,565	**55,805**
Increase in cash and cash equivalents resulting from merger	**–**	148	–	–	**–**
Cash and cash equivalents at end of year *(Notes 4 and 5)*	**¥ 4,985**	¥ 6,590	¥ 7,803	¥ 11,030	**$ 42,214**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ISEKI & CO., LTD. and Consolidated Subsidiaries
March 31, 2007

1. Basis of Presentation

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 have been compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

During the year ended March 31, 2007, the Company retroactively revised its consolidated financial statements for the years ended March 31, 2006, 2005 and 2004 because certain inappropriate accounting treatments were noted such as the recording of manufacturing costs as work in process by consolidated subsidiaries when such costs should have been recorded as cost of sales. As a result of these revisions, for the years ended March 31, 2006, 2005 and 2004, operating income and income before income taxes and minority interests both decreased by ¥1,139 million, ¥1,426 million and ¥562 million, respectively, and net income decreased by ¥1,095 million, ¥1,587 million and ¥870 million, respectively, primarily resulting from an increase in cost of sales of ¥1,129 million, ¥1,426 million and ¥562 million, respectively. In addition, as a result of these revisions, inventories, property, plant and equipment and total net assets as of March 31, 2006 decreased by ¥2,687 million, ¥350 million and ¥3,552 million, respectively, and inventories and total net assets as of March 31, 2005 decreased by ¥1,942 million and ¥2,457 million, respectively, and inventories and total net assets as of March 31, 2004 decreased by ¥562 million and ¥870 million, respectively.

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 ¥118.09 = U.S.$1.00, the exchange rate prevailing on March 31, 2007. 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 all significant companies which it controls directly or indirectly. The assets and liabilities of 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. If necessary, adjustments are made to reflect any significant differences in intercompany accounts arising from intervening intercompany transactions during the period from January 1 through March 31.

Goodwill or negative goodwill, the differences between the cost and the underlying equity in net assets at the respective dates of acquisition of the consolidated subsidiaries, is amortized by the straight-line method over a period of 20 years or less.

(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 its balance sheet accounts (except for the components of net assets excluding minority interests in consolidated subsidiaries) are translated into yen at the rate of exchange in effect at the balance sheet date. The components of net assets excluding minority interests in consolidated subsidiaries are translated at their respective historical exchange rates. The Company has presented foreign currency translation adjustments as a component of net assets and minority interests in consolidated subsidiaries in the accompanying consolidated financial statements.

(c) 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 into 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.

(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 net assets. Cost of securities sold is determined principally by the moving average method. Non-marketable securities classified as other securities are carried at cost principally by the moving average method.

(e) Derivative financial instruments and hedging activities

Derivatives are stated at fair value with any changes in fair value being 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 unrealized 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.

2. Summary of Significant Accounting Policies (continued)

(f) 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 with bad debts.

(g) Inventories

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

(h) Property, plant and equipment

Depreciation is computed principally by the declining-balance method over the estimated useful lives of the respective assets, except for tools and buildings (other than structures attached to the buildings) acquired on or after April 1, 1998 which are depreciated by the straight-line method over their respective estimated 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 costs were ¥100 thousand or more, but less than ¥200 thousand, is computed principally by the straight-line method over a period of 3 years.

(i) Intangible assets

Amortization of intangible assets is calculated by the straight-line method over the estimated useful lives of the respective assets.

Costs incurred for computer software developed or obtained for internal use are capitalized and amortized on a straight-line basis over an estimated useful life of 5 years. Costs incurred for computer software used for marketing are also capitalized and amortized on a straight-line basis over such software's estimated marketable period of 3 years.

(j) Bond issuance expenses

Bond issuance expenses are charged to income as incurred.

(k) Leases

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

(l) Income taxes

Deferred income taxes are recognized by the asset and liability method. Under this method, deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

(m) 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 10 to 13 years, the estimated average remaining years of service of the eligible employees. 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 10 to 13 years, the estimated average remaining years of service of the eligible employees.

Certain domestic consolidated subsidiaries, upon the enactment of the Defined Contribution Pension Plan Law, converted their tax-qualified pension plans and lump-sum payment plans to defined contribution plans effective April 2004, and adopted an accounting standard governing the transition between the retirement benefit plans. The effect of this change was that a loss of ¥20 million was recorded and included in "Other income (expenses) – Other, net" in the accompanying consolidated statement of income for the year ended March 31, 2005.

Subject to approval at a shareholders' meeting, the directors and corporate 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 corporate auditors has been made at estimated amounts based on the Company's internal regulations.

(n) Revenue from installment sales

A certain domestic consolidated subsidiary handles the installment sales business. The unrealized profit on installment sales corresponding to the portion of installment receivables due in subsequent years is deferred and is recorded as a component of "Other current liabilities" in the accompanying consolidated balance sheets.

(o) Appropriation of retained earnings

Under the Corporation Law 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. Changes in Method of Accounting

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. Through March 31, 2006, the Company voluntarily prepared statements of shareholders' equity for the convenience of readers outside Japan. Under this new accounting standard, certain items which were previously presented as assets and liabilities are now presented as components of net assets. Such items include minority interests in consolidated subsidiaries. Total shareholders' equity under the previous method of presentation amounted to ¥54,138 million ($458,447 thousand) at March 31, 2007.

Effective the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries adopted an accounting standard for the impairment of fixed assets which requires that tangible and intangible fixed assets be carried at cost less depreciation, and be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Companies are required to recognize an impairment loss in their statement of income if certain indicators of asset impairment exist and if the book value of an asset exceeds the undiscounted sum of its future cash flows. The standard states that impairment losses should be measured as the excess of the book value over the higher of (1) the fair market value of the asset, net of disposition costs, and (2) the present value of future cash flows arising from ongoing utilization of the asset and from its disposal after use. The standard covers land, factories, buildings and other forms of property, plant and equipment as well as intangible assets. Fixed assets are to be grouped at the lowest levels for which there are identifiable cash flows which are independent of the cash flows from other groups of assets.

As a result of the adoption of this accounting standard, a loss on impairment of fixed assets in the amount of ¥506 million was recognized and income before income taxes and minority interests decreased by the same amount for the year ended March 31, 2006 from the corresponding amount which would have been recorded under the previous method. The accumulated impairment loss on such assets has been deducted directly from the carrying amounts of the respective assets in the accompanying consolidated balance sheets at March 31, 2007 and 2006.

4. Cash and Cash Equivalents

A reconciliation of cash and deposits in the accompanying consolidated balance sheets and cash and cash equivalents in the accompanying consolidated statements of cash flows at March 31, 2007, 2006, 2005 and 2004 is as follows:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	2007
Cash and deposits	¥5,271	¥6,972	¥8,202	¥13,466	$44,635
Less: time deposits with original maturities exceeding three months	(286)	(382)	(399)	(2,436)	(2,421)
Cash and cash equivalents	¥4,985	¥6,590	¥7,803	¥11,030	$42,214

5. Supplemental Cash Flow Information

Significant non-cash transactions for the year ended March 31, 2006 are summarized as follows:

	Millions of yen
Exercise of stock acquisition rights of convertible bonds:	
Increase in common stock	¥ 251
Increase in capital surplus	250
Gain on disposal of treasury stock	871
Decrease in treasury stock	1,833
Decrease in convertible bonds	¥3,205

No significant non-cash transactions were noted for the years ended March 31, 2007, 2005 and 2004.

6. Notes Receivable and Notes Payable

The balance sheet date of the year ended March 31, 2007 fell on a bank holiday. Consequently, notes receivable, trade of ¥26 million ($220 thousand), notes payable, trade of ¥2,275 million ($19,265 thousand), and notes payable, construction of ¥169 million ($1,431 thousand) with maturity dates of March 31, 2007 were included in the respective balances and were settled on the next business day.

7. Securities

(a) Information regarding marketable securities classified as held-to-maturity debt securities at March 31, 2007, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			2007		
	Carrying value	Fair value	Unrealized loss	Carrying value	Fair value	Unrealized loss
Securities whose fair value does not exceed their carrying value	¥250	¥248	¥(2)	$2,117	$2,100	$(17)

7. Securities
(continued)

	Millions of yen								
	2006			2005			2004		
	Carrying value	Fair value	Unrealized loss	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized gain (loss)
Securities whose fair value exceeds their carrying value	¥ –	¥ –	¥ –	¥635	¥637	¥ 2	¥455	¥458	¥ 3
Securities whose fair value does not exceed their carrying value	390	386	(4)	30	30	(0)	190	189	(1)
Total	¥390	¥386	¥(4)	¥665	¥667	¥ 2	¥645	¥647	¥ 2

(b) Information regarding marketable securities classified as other securities at March 31, 2007, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2007			**2007**		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	**¥2,719**	**¥7,065**	**¥4,346**	**$23,025**	**$59,827**	**$36,802**
Subtotal	**2,719**	**7,065**	**4,346**	**23,025**	**59,827**	**36,802**
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	**16**	**10**	**(6)**	**135**	**84**	**(51)**
Other	**100**	**93**	**(7)**	**847**	**788**	**(59)**
Subtotal	**116**	**103**	**(13)**	**982**	**872**	**(110)**
Total	**¥2,835**	**¥7,168**	**¥4,333**	**$24,007**	**$60,699**	**$36,692**

	Millions of yen								
	2006			2005			2004		
	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)	Acquisition costs	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:									
Equity securities	¥2,716	¥7,570	¥4,854	¥2,937	¥6,209	¥3,272	¥3,058	¥5,719	¥2,661
Other	–	–	–	0	1	1	2	2	0
Subtotal	2,716	7,570	4,854	2,937	6,210	3,273	3,060	5,721	2,661
Securities whose carrying value does not exceed their acquisition costs:									
Equity securities	16	13	(3)	18	13	(5)	118	101	(17)
Subtotal	16	13	(3)	18	13	(5)	118	101	(17)
Total	¥2,732	¥7,583	¥4,851	¥2,955	¥6,223	¥3,268	¥3,178	¥5,822	¥2,644

(c) Sales of securities classified as other securities for the years ended March 31, 2007, 2006, 2005 and 2004 were as follows:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Carrying value of other securities sold	**¥–**	¥945	¥550	¥104	**$–**
Gain on sales	**–**	720	311	63	**–**

(d) The carrying value of held-to-maturity debt securities and other securities with no determinable fair value at March 31, 2007, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Held-to-maturity debt securities:					
Discounted financial bonds	**¥ 23**	¥ 6	¥ 10	¥ 56	**$ 195**
Other securities:					
Unlisted equity securities	**1,326**	1,332	1,354	1,378	**11,230**

7. Securities *(continued)*

(e) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at March 31, 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
	Due in one year or less	Due after one year through five years	Due in one year or less	Due after one year through five years
Other debt securities	¥23	**¥250**	$195	**$2,117**
Total	¥23	**¥250**	$195	**$2,117**

8. Inventories

Inventories at March 31, 2007, 2006, 2005 and 2004 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Finished goods and merchandise	**¥40,736**	¥35,195	¥34,583	¥33,391	**$344,957**
Semifinished goods	**43**	60	50	52	**364**
Work in process	**3,579**	3,533	3,350	3,836	**30,308**
Raw materials and supplies	**1,153**	1,011	926	1,080	**9,764**
Total	**¥45,511**	¥39,799	¥38,909	¥38,359	**$385,393**

9. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the years ended March 31, 2007 and 2006 amounted to ¥26 million ($220 thousand) and ¥506 million, respectively, and consisted of buildings and structures of ¥2 million ($16 thousand) and ¥48 million, respectively, and land of ¥24 million ($204 thousand) and ¥458 million, respectively. Such loss on impairment of fixed assets is outlined as follows:

Use	Classification	Location	Millions of yen 2007	Thousands of U.S. dollars 2007
Idle property	Land	Ebetsu City, Hokkaido Prefecture	**¥18**	**$152**
Idle property	Land and buildings	Tsugaru City, Aomori Prefecture	**8**	**68**
Total			**¥26**	**$220**

Use	Classification	Location	Millions of yen 2006
Idle property	Land	Inashiki Gun, Ibaraki Prefecture	¥222
Idle property	Land	Kirishima City, Kagoshima Prefecture	78
Idle property	Land and buildings	Kuma Gun, Kumamoto Prefecture	57
Idle property	Land	Sasayama City, Hyogo Prefecture	39
Idle property	Buildings	Matsuyama City, Ehime Prefecture	33
Idle property	Land	Kasumigaura City, Ibaraki Prefecture	23
Idle property	Land and structures	Kamiminochi Gun, Nagano Prefecture	18
Idle property	Land, buildings and structures	Sapporo City, Hokkaido Prefecture and other areas (8 items)	36
Total			¥506

Loss on impairment of fixed assets was recorded for the years ended March 31, 2007 and 2006 as the assets and asset groups listed above remained unused. As a result, there was no expectation of future utilization of such assets and asset groups, and the market value of the land declined.

The Company and its consolidated subsidiaries group their fixed assets at each unit which manages receipts and payments independently. They also group idle properties and properties loaned out at each asset.

The recoverable amounts of such assets and asset groups are measured at their estimated selling value. An estimate of the selling value of the impaired land is a reasonable reflection of its value as assessed for property tax purposes.

10. 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 net asssets at the net amount of the relevant tax effect. The method followed in determining the land revaluation was in accordance with the "Enforcement Act Concerning Land Revaluation." The carrying value of this land exceeded its fair value by ¥9,025 million ($76,425 thousand), ¥8,245 million, ¥6,082 million and ¥4,560 million at March 31, 2007, 2006, 2005 and 2004, respectively.

11. 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 1.38%, 1.28%, 1.45% and 1.54% at March 31, 2007, 2006, 2005 and 2004, respectively.

The Company has concluded line-of-credit agreements with certain banks to reduce its interest-bearing debt, to achieve efficient financing and to improve its cash flows. The status of these lines of credit at March 31, 2007, 2006, 2005 and 2004 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Lines of credit	**¥20,000**	¥25,000	¥25,000	¥25,000	**$169,362**
Short-term borrowings	**5,400**	1,300	2,000	5,000	**45,728**
Available credit	**¥14,600**	¥23,700	¥23,000	¥20,000	**$123,634**

Long-term debt at March 31, 2007, 2006, 2005 and 2004 consisted of the following:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Zero coupon yen convertible bonds	**¥ 6,795**	¥ 6,795	¥10,000	¥ –	**$ 57,541**
0.31% unsecured bonds due 2010	**1,000**	1,000	–	–	**8,468**
0.87% unsecured bonds due 2007	**100**	100	100	100	**847**
0.45% unsecured bonds due 2006	**–**	60	60	60	**–**
0.57% unsecured bonds due 2008	**60**	60	60	60	**508**
0.67% unsecured bonds due 2010	**180**	220	260	300	**1,525**
1.00% unsecured bonds due 2009	**50**	–	–	–	**424**
Loans principally from banks and insurance companies due through 2023 at an average interest rate of 1.37%	**25,981**	27,195	30,091	38,238	**220,010**
	34,166	35,430	40,571	38,758	**289,323**
Less: current portion	**(7,665)**	(18,390)	(7,391)	(10,539)	**(64,909)**
	¥26,501	¥ 17,040	¥33,180	¥ 28,219	**$224,414**

On October 5, 2004, the Company issued ¥10 billion of zero coupon yen convertible bonds with stock acquisition rights. An outline of these bonds is as follows:

Type of shares to which stock acquisition rights apply	Common stock of the Company
Issue price of stock acquisition rights	Nil
Exercise price of stock acquisition rights	¥338
Principal of bonds	¥10 billion
Payment to be made upon exercise of stock acquisition rights	100% of the amount paid for each bond
Exercisable period	October 19, 2004 to September 21, 2009

Exercise of the stock acquisition rights shall be deemed as payment by the bondholder of the full amount required to be paid upon exercise of the stock acquisition rights, rather than as a redemption of the bond at its principal amount.

At March 31, 2007, assets pledged as collateral for short-term borrowings of ¥6,398 million ($54,179 thousand) and long-term debt of ¥3,831 million ($32,441 thousand) including the current portion of ¥2,510 million ($21,255 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment:		
Land	¥ 8,934	$ 75,654
Buildings and structures	2,880	24,388
	¥11,814	$100,042

11. Short-Term Borrowings and Long-Term Debt
(continued)

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 7,665	$ 64,909
2009	6,975	59,065
2010	11,490	97,299
2011	5,070	42,933
2012	2,787	23,601
2013 and thereafter	179	1,516
Total	¥34,166	$289,323

12. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporate tax, inhabitants' taxes and enterprise tax which, in the aggregate, resulted in statutory tax rates of 40.0% for the years ended March 31, 2007, 2006 and 2005, and 42% for the year ended March 31, 2004. The overseas consolidated subsidiary is subject to the income taxes of the country in which it operates.

The effective tax rates for the years ended March 31, 2007, 2006, 2005 and 2004 differed from the corresponding statutory tax rates for the following reasons:

	2007	2006	2005	2004
Statutory tax rates:	**40.0%**	40.0%	40.0%	42.0%
Permanently non-deductible expenses	**24.9**	2.3	3.7	3.4
Per capita portion of inhabitants' taxes	**17.9**	3.2	3.6	3.7
Changes in valuation allowance for deferred tax assets	**5.4**	(6.6)	15.1	(12.3)
Other	**5.1**	3.3	(1.1)	1.7
Effective tax rates	**93.3%**	42.2%	61.3%	38.5%

The tax effects of temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2007, 2006, 2005 and 2004 are presented below:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Deferred tax assets:					
Accrued retirement benefits	**¥ 1,473**	¥ 934	¥ 647	¥ 619	**$ 12,473**
Accrued bonuses for employees	**326**	305	315	288	**2,761**
Unrealized gain on sales of inventories and property, plant and equipment	**55**	274	1,130	868	**466**
Tax loss carryforwards	**501**	672	8	–	**4,242**
Other	**428**	217	374	135	**3,624**
Offset against deferred tax liabilities	**(1,507)**	(422)	(176)	(56)	**(12,761)**
Net deferred tax assets	**¥ 1,276**	¥1,980	¥2,298	¥1,854	**$ 10,805**
Deferred tax liabilities:					
Reserve for deferred taxation on compensation for expropriation or exchange of property	**¥ 175**	¥ 188	¥ 176	¥ 188	**$ 1,482**
Unrealized holding gain on securities	**1,735**	1,940	1,307	1,058	**14,692**
Land revaluation reserve	**7,595**	7,595	7,131	7,131	**64,315**
Prepaid pension cost	**542**	270	–	–	**4,590**
Other	**316**	311	416	131	**2,676**
Offset against deferred tax assets	**(1,507)**	(422)	(176)	(56)	**(12,761)**
Net deferred tax liabilities	**¥ 8,856**	¥9,882	¥8,854	¥8,452	**$ 74,994**

13. 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. During the year ended March 31, 2005, certain domestic consolidated subsidiaries converted their tax-qualified pension plans and lump-sum payment plans to defined contribution plans.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2007, 2006, 2005 and 2004 for the defined benefit plans of the Company and the consolidated subsidiaries:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Retirement benefit obligation	**¥(30,209)**	¥(30,317)	¥(29,927)	¥(30,446)	**$(255,813)**
Plan assets at fair value	**14,561**	12,109	8,725	7,112	**123,304**
Unfunded retirement benefit obligation	**(15,648)**	(18,208)	(21,202)	(23,334)	**(132,509)**
Unrecognized benefit obligation at transition	**11,683**	13,144	14,604	16,085	**98,933**
Unrecognized actuarial loss	**1,021**	1,462	2,914	3,306	**8,646**
Unrecognized prior service cost	**(857)**	(528)	(627)	(725)	**(7,257)**
Net retirement benefit obligation	**(3,801)**	(4,130)	(4,311)	(4,668)	**(32,187)**
Prepaid pension cost	**1,385**	679	203	154	**11,728**
Accrued retirement benefits	**¥ (5,186)**	¥ (4,809)	¥ (4,514)	¥ (4,822)	**$ (43,915)**

The components of retirement benefit expenses for the years ended March 31, 2007, 2006, 2005 and 2004 are outlined as follows:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Service cost	**¥1,408**	¥1,296	¥1,397	¥1,403	**$11,923**
Interest cost	**502**	499	507	633	**4,251**
Expected return on plan assets	**(195)**	(133)	(100)	(105)	**(1,651)**
Amortization:					
Net retirement benefit obligation at transition	**1,460**	1,460	1,461	1,462	**12,363**
Actuarial loss	**232**	326	331	277	**1,965**
Prior service cost	**(98)**	(98)	(98)	(98)	**(830)**
Other	**51**	52	45	56	**432**
Retirement benefit expenses	**3,360**	3,402	3,543	3,628	**28,453**
Additional retirement benefits	**–**	–	4	12	**–**
Gain on conversion of pension plans	**–**	–	20	–	**–**
Total	**¥3,360**	¥3,402	¥3,567	¥3,640	**$28,453**

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

The effect of the conversion of the defined benefit plans to defined contribution plans of certain domestic consolidated subsidiaries during the year ended March 31, 2005 is summarized as follows:

	Millions of yen
Reduction of benefit obligation	¥142
Reduction of pension plan assets	(94)
Net retirement benefit obligation at transition	(20)
Decrease in accrued retirement benefits	¥ 28

13. Accrued Retirement Benefits
(continued)

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2007, 2006, 2005 and 2004 are summarized as follows:

	2007	2006	2005	2004
Discount rate	**2.0%**	2.0%	2.0%	2.0%
Expected rates of return on plan assets	**2.0%**	2.0%	2.0%	2.5%

14. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

The legal reserve of the Company was nil at March 31, 2007, 2006, 2005 and 2004.

15. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses amounted to ¥4,498 million ($38,090 thousand), ¥4,209 million, ¥3,939 million and ¥3,822 million for the years ended March 31, 2007, 2006, 2005 and 2004, respectively.

16. Other Income (Expenses)

Loss on liquidation of a consolidated subsidiary presented in the accompanying consolidated statement of income for the year ended March 31, 2006 represented a loss resulting from the liquidation of AIEFU & CO., LTD.

Loss on prior year's adjustment presented in the accompanying consolidated statement of income for the year ended March 31, 2006 represented an adjustment to the carrying value of certain assets owned by a consolidated subsidiary.

17. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2007, 2006, 2005 and 2004, which would have been reflected in the accompanying 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		
	2007			2007		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	**¥ 36**	**¥ 28**	**¥ 8**	**$ 305**	**$ 237**	**$ 68**
Machinery, equipment and vehicles	**3,433**	**1,232**	**2,201**	**29,071**	**10,433**	**18,638**
Tools, furniture and fixtures	**4,849**	**2,687**	**2,162**	**41,062**	**22,754**	**18,308**
	¥8,318	**¥3,947**	**¥4,371**	**$70,438**	**$33,424**	**$37,014**

	Millions of yen								
	2006			2005			2004		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥ 36	¥ 23	¥ 13	¥ 36	¥ 18	¥ 18	¥ 36	¥ 13	¥ 23
Machinery, equipment and vehicles	3,004	1,167	1,837	2,565	1,084	1,481	2,185	1,078	1,107
Tools, furniture and fixtures	4,890	2,916	1,974	4,713	2,456	2,257	3,706	1,753	1,953
	¥7,930	¥4,106	¥3,824	¥7,314	¥3,558	¥3,756	¥5,927	¥2,844	¥3,083

17. Leases
(continued)

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2007, 2006, 2005 and 2004 and the corresponding depreciation and interest expense computed by the straight-line method and the interest method, respectively, are summarized as follows:

	Millions of yen				Thousands of U.S. dollars
	2007	2006	2005	2004	**2007**
Lease payments	**¥1,573**	¥1,609	¥1,441	¥1,275	**$13,320**
Depreciation	**1,437**	1,481	1,324	1,169	**12,169**
Interest expense	**127**	135	124	113	**1,075**

Future minimum lease payments subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥1,486	$12,583
2009 and thereafter	2,992	25,337
Total	¥4,478	$37,920

Future minimum lease payments subsequent to March 31, 2007 for non-cancelable operating leases were as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2008	¥223	$1,888
2009 and thereafter	245	2,075
Total	¥468	$3,963

18. Contingent Liabilities

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans of others	¥9,706	$82,192
Notes receivable discounted with banks	66	559
Notes receivable endorsed	640	5,420

19. Derivatives

The Company and certain consolidated subsidiaries utilize derivative financial instruments to reduce foreign exchange rate and interest-rate risk, and manage them efficiently. The Company and certain consolidated subsidiaries utilize forward foreign exchange contracts to hedge the risk of fluctuation in foreign currency assets and liabilities in the course of their import and export operations. In addition, the Company and certain consolidated subsidiaries utilize interest-rate swaps to hedge the risk of fluctuation in interest rates on their borrowings. The Company and these consolidated subsidiaries do not enter into derivatives contracts 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 these consolidated subsidiaries do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings. In addition, the Company and these consolidated subsidiaries have established internal policies which include procedures and authorization processes governing derivatives and comply fully with these guidelines.

20. Amounts Per Share

Amounts per share at March 31, 2007, 2006, 2005 and 2004 and for the years then ended were as follows:

	Yen				U.S. dollars
	2007	2006	2005	2004	**2007**
Net assets	**¥239.71**	¥243.91	¥227.52	¥222.86	**$2.03**
Net income:					
Basic	**0.08**	12.21	6.32	9.96	**0.00**
Diluted	**0.07**	10.82	5.92	–	**0.00**
Cash dividends applicable to the year	**–**	3.00	3.00	3.00	**–**

Amounts per share of net assets are computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at year end. Basic net income per share is 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. Diluted net income per share is 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 after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of convertible bonds. Cash dividends per share represent the cash dividends proposed by the Company's Board of Directors as applicable to the respective years.

Diluted net income per share for the year ended March 31, 2004 has not been presented because there were no potentially dilutive shares at March 31, 2004.

21. Segment Information

(1) Business segment information

As the percentage of manufacturing and sales of agricultural machinery exceeded 90% of total assets, sales and operating income at March 31, 2007, 2006, 2005 and 2004 and for the years then ended, the disclosure of business segment information has been omitted.

(2) Geographical segment information

As sales and assets of the Company and the domestic consolidated subsidiaries exceeded 90% of consolidated total assets and sales at March 31, 2007, 2006, 2005 and 2004 and for the years then ended, the disclosure of geographical segment information has been omitted.

(3) Overseas sales information

Overseas sales for the years ended March 31, 2007, 2006 and 2005 were as follows:

	Millions of yen				Thousands of U.S. dollars			
	2007				**2007**			
	United States	Europe	Other	Total	United States	Europe	Other	Total
Overseas sales	**¥6,751**	**¥8,937**	**¥3,166**	**¥ 18,854**	**$57,168**	**$75,680**	**$26,810**	**$ 159,658**
Consolidated net sales	**–**	**–**	**–**	**153,729**	**–**	**–**	**–**	**1,301,795**
Overseas sales as a percentage of consolidated net sales	**4.4%**	**5.8%**	**2.1%**	**12.3%**	**–**	**–**	**–**	**–**

	Millions of yen							
	2006				2005			
	United States	Europe	Other	Total	United States	Europe	Other	Total
Overseas sales	¥9,072	¥8,674	¥2,767	¥ 20,513	¥8,031	¥6,011	¥1,839	¥ 15,881
Consolidated net sales	–	–	–	161,744	–%	–	–%	157,462
Overseas sales as a percentage of consolidated net sales	5.6%	5.4%	1.7%	12.7%	5.1%	3.8%	1.2%	10.1%

(a) The principal countries and areas in each segment were as follows:
Europe: France, Germany, the United Kingdom, Belgium, Switzerland, the Netherlands, etc.
Other: South Korea, Taiwan, China, Thailand, Australia, New Zealand, etc.

(b) Overseas sales consisted of export sales of the Company and sales of its overseas consolidated subsidiary.

(c) As the percentage of overseas sales for the year ended March 31, 2004 was less than 10% of consolidated net sales, the disclosure of overseas sales information has been omitted.

Report of Independent Auditors

The Board of Directors
ISEKI & CO., LTD.

We have audited the accompanying consolidated balance sheets of ISEKI & CO., LTD. and consolidated subsidiaries as of March 31, 2007, 2006, 2005 and 2004, and the related consolidated statements of income, changes in net assets, 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 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, 2007, 2006, 2005 and 2004, 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.

Supplemental Information

1. As described in Note 1, during the year ended March 31, 2007, the Company retroactively revised its consolidated financial statements for the years ended March 31, 2006, 2005 and 2004 because certain inappropriate accounting treatments were noted such as the recording of manufacturing costs as work in process by consolidated subsidiaries when such costs should have been charged to income and recorded as cost of sales. We have audited these revised consolidated financial statements. As a result of these revisions, for the years ended March 31, 2006, 2005 and 2004, operating income and income before income taxes and minority interests both decreased by ¥1,139 million, ¥1,426 million and ¥562 million, respectively, and net income decreased by ¥1,095 million, ¥1,587 million and ¥870 million, respectively, primarily resulting from an increase in cost of sales of ¥1,129 million, ¥1,426 million and ¥562 million, respectively.

   In addition, as a result of these revisions, inventories, property, plant and equipment and total net assets as of March 31, 2006 decreased by ¥2,687 million, ¥350 million and ¥3,552 million, respectively, and inventories and total net assets as of March 31, 2005 decreased by ¥1,942 million and ¥2,457 million, respectively, and inventories and total net assets as of March 31, 2004 decreased by ¥562 million and ¥870 million, respectively.

2. As described in Note 3, effective the year ended March 31, 2006, the Company and its domestic consolidated subsidiaries adopted an accounting standard for the impairment of fixed assets.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 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 28, 2007

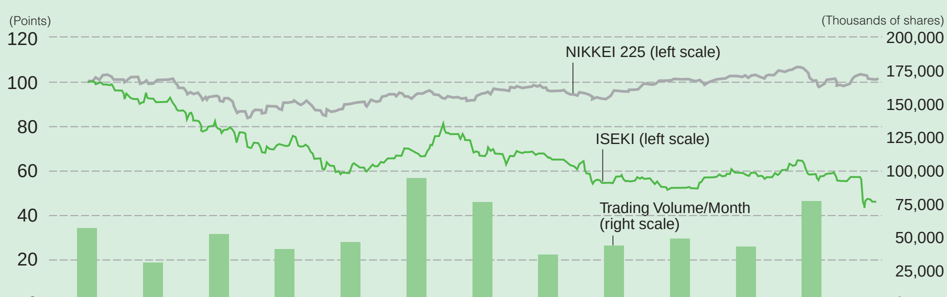
Ernst & Young Shin Nihon

Corporate Data

(As of March 31, 2007)

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
Web Site	http://www.iseki.co.jp/
Founded	August 1926
Paid-in Capital	¥22,785 million
Number of Employees (Consolidated)	6,765
Stock Listings	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 105-8574, Japan
Shares Issued and Outstanding	226,536,329
Number of Shareholders	30,654
Independent Auditor	Ernst & Young Shin Nihon

Stock Performance and Trading Volume per Month



	'06/4	'06/5	'06/6	'06/7	'06/8	'06/9	'06/10	'06/11	'06/12	'07/1	'07/2	'07/3
Opening Price	536	485	422	378	328	354	358	347	290	278	305	317
High	545	492	424	407	384	438	381	357	313	325	347	322
Low	468	405	355	304	310	351	322	280	270	276	290	222
Closing Price	490	417	376	325	359	353	350	290	277	306	312	244
Trading Volume/Month (Unit: thousands)	56,574	31,512	52,445	40,873	44,891	92,784	76,711	36,646	45,103	48,878	42,780	76,699

Share Price on April 1, 2006 (¥529)=100

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