Japan's Agricultural Landscape

ISEKI

Annual Report 2008

Year ended March 31, 2008

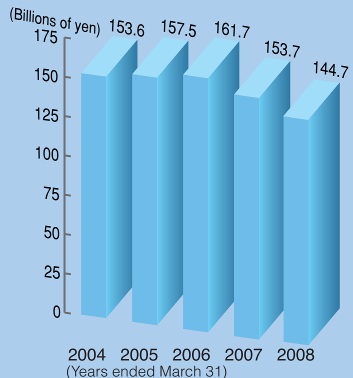
Improving Agricultural Environments around the World

ISEKI & CO., LTD.

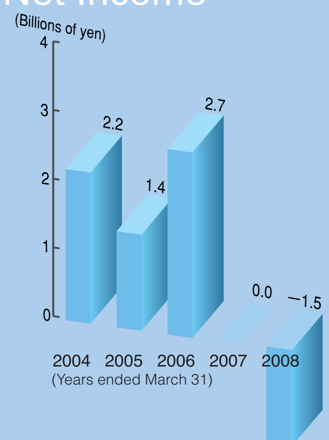
ANNUAL REPORT 2008

Consolidated Financial Highlights

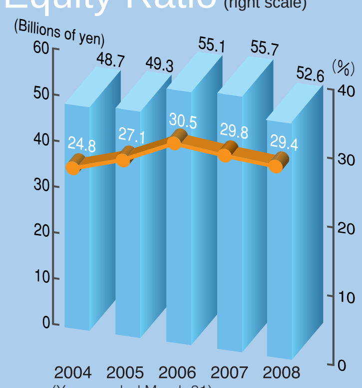
Net Sales



Net Income



Net Assets/ Equity Ratio (right scale)



	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Net sales	**¥144,714**	¥153,729	**$1,444,251**
Operating income	**736**	2,244	**7,345**
(Loss) income before income taxes and minority interests	**(522)**	808	**(5,210)**
Net (loss) income	**(1,467)**	18	**(14,641)**
Total assets	**173,198**	181,363	**1,728,523**
Net assets	**52,556**	55,724	**524,511**

Per share data:	Yen		U.S. dollars
Net (loss) income per share	**¥ (6.49)**	¥ 0.08	**$ (0.06)**
Diluted net income	**–**	0.07	**–**
Net assets per share	**225.76**	239.71	**2.25**
Cash dividends	**–**	–	**–**

	(%)	
Return on equity	**(2.8)**	0.0
Return on assets	**(0.8)**	0.0
Shareholders' equity ratio	**29.4**	29.8

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥100.20 to US$1.00, the approximate rate of exchange at March 31, 2008.

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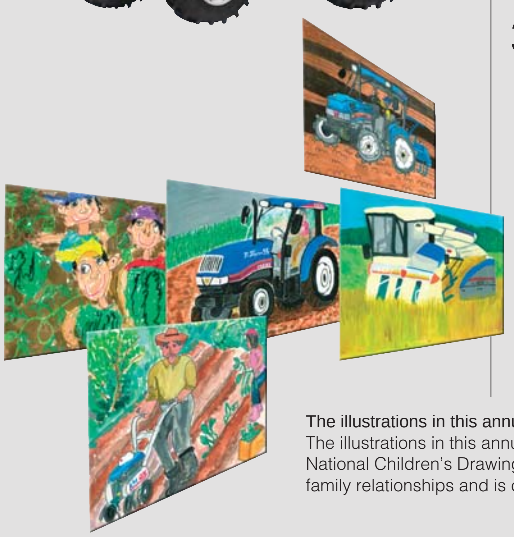


Cautionary Note Regarding Forward-Looking Statements
This annual report contains forward-looking statements in which certain risks and uncertainties are inherent and actual performance may differ materially from the expectations indicated herein. Readers are therefore cautioned not to rely exclusively 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.

To Our Shareholders

Aiming for Further Business Development through Our Contribution to Agriculture in Japan and around the World

Fiscal 2008 Operating Performance

In fiscal 2008, the year ended March 2008, the net sales of ISEKI & CO., LTD., decreased 5.9% year on year, to ¥144.7 billion. Domestic sales declined ¥12.2 billion, or 9.0%, to ¥122.7 billion against the backdrop of the slump in the agricultural market. Conversely, overseas sales rose ¥3.2 billion, to ¥22.0 billion, on the strength of favorable markets in Europe and Asia.

Looking at profits, operating income amounted to ¥700 million and ordinary income was ¥34 million. On the other hand, the Company recorded a loss of ¥1.5 billion because of the reversal of deferred tax assets.

Financially, the Company continued to trim down its balance sheet. At the end of the fiscal year under review, total assets amounted to ¥173.2 billion, contracting ¥8.2 billion from a year earlier.

Measures to Contribute to a Stable Food Supply

As the worldwide population continues to increase, providing sufficient food remains a major topic of global concern. During the fiscal year under review, in addition to the growing global demand for food along with the expansion in China and other emerging economies, rising demand for biofuel, a drought in Australia, and other factors combined to drive up the prices of wheat, soybeans, corn, and other staples, creating a serious problem worldwide.

In the medium- to long-term, there is great concern about the significant impact of environmental problems, such as climate change, deforestation, and desertification, on maintaining a stable food supply globally. In this light, agriculture is taking on an increasingly important role in the world economy.

In recognition of these issues, Iseki is pursuing a medium-term basic strategy to contribute to a stable food supply. The major themes of this strategy are expanding sales and market share in domestic and overseas markets, strengthening product competitiveness, and improving consolidated structure.

In accordance with this basic strategy, we are implementing the following principal measures:

1. The expansion of overseas sales
2. To secure 20% share of the domestic agricultural machinery market
3. To strengthen product competitiveness further
4. To improve consolidated financial position by strengthening earning power and cash flow

Market Trends and Basic Strategy

The Ministry of Agriculture, Forestry and Fisheries of Japan has announced its “2008 New Agriculture Policy for the 21st Century.” In consideration of the alarming fact that Japan’s food self-sufficiency ratio declined to 39% in 2006, The policy offers measures to raise the food self-sufficiency ratio in Japan to 50% and establish a stable supply system in preparation for emergencies. Specific strategies include proactive use of domestically produced agricultural products, nurturing of business leaders in the industry, preserving the agricultural lands that form the foundation of the industry, and accelerating the development of agricultural technology.

Demand for agricultural machinery is on the wane in Japan, making business conditions extremely difficult. However, signs of a recovery trend are emerging. We are hoping that the new agricultural policy of Japan will put positive wind in the sails of the domestic agricultural machinery industry. The new policy promotes the entrance of general corporations into the industry, the employment of young people in farming, and the aggressive development of technology, such as energy conservation farming methods.

Anticipating the increased use of large-scale agricultural equipment, we plan to demonstrate our special features as "Iseki—the Technology Company" by launching new products that will contribute to higher productivity, better quality, and labor and energy conservation in farming. Based on these efforts, we are aiming to increase our market share from 19% to more than 20%.

Moreover, the home vegetable patch and other small-scale hobby farming market is expanding thanks to the health oriented boom, and we are aggressively selling tiller equipment to this market.

Aggressive Development in Asia, Europe, and North America

Overseas markets are regarded as the main source of the Iseki Group's growth. During the fiscal year under review, overseas sales increased ¥3.2 billion, to ¥22.0 billion. Of this amount, product sales increased ¥3.0 billion, to ¥20.4 billion and parts and others contributed ¥1.6 billion, growing ¥200 million from a year earlier. North American sales declined ¥1.1 billion, to ¥5.4 billion under the impact of inventory adjustments by our OEM customer in that market.

Despite the slowdown in the U.S. economy related to the subprime mortgage loan problem, orders from our OEM customer in the North American market began to recover in 2008, and to exceed the previous year's levels. For the future, we plan increase our market share by introducing new products that meet market needs.

In Europe, sales of compact tractors and mowers were firm. In this market we are seeking to build sales based on the introduction of new products and the development of markets in the eastern and southern Europe.

In Asia, the Chinese market continued to expand supported by the Chinese government's agricultural equipment promotion law. We increased sales in this market by introducing products that match market needs, such as higher horse power combine harvesters.

Strengthening Product Competitiveness and Earning Power

Amid the dramatic fluctuations in the business environment, Iseki is implementing a wide range of measures to reform its earning structure. These efforts are aimed at building a corporate structure that can maintain profitability into the future.

Focusing the overall power of the Group on strengthening our product competitiveness, we are taking steps to increase the overall level of the performance, quality, and prices of our products and related services. At the same time, we are concentrating our efforts on the timely planning and market launch of products that accurately capture the needs of the market.

Amid the notable hike in material prices, the Group is endeavoring to maintain its profitability by reducing product costs, production process losses, and operating expenses. In the fiscal year ended March 2008, we worked on making production adjustments and normalizing inventories and pursued reforms of our cost structure, such as reducing personnel expenditures. We are expecting the effects of these efforts to emerge in the current fiscal year.

R&D and Environmental Management Activities

Research and development are essential to improving product competitiveness. At Iseki, as a pioneer in agricultural equipment, we have introduced many breakthrough products to the agricultural equipment market, such as Japan's first integrated mechanized system of rice cultivation.

The TJW series
TJW117 of large semi-crawler tractors

The HFG series
HFG435 of combine harvesters

The PZ series
PZ80 of rice transplanters

Our goal is to further accelerate the manufacture of products with high performance and durability, ease of use and reliability, and price competitiveness. We plan to achieve this goal by utilizing our intellectual property in developing new products and in improving the performance and function of existing products.

We give high priority to our environmental activities, considering this area a key management issue. The steps we are taking to build environmentally friendly products include conserving natural resources and energy in their production, reducing their gas emissions and noise, and promoting their recycling. We also are proactively initiating activities to reduce the impact of our offices and plants on the environment.

Corporate Governance

We are steadily introducing measures to ensure thorough compliance-oriented management; to strengthen the management, oversight, and monitoring of manufacturing subsidiaries and other companies; and to implement systematic rotation of managers. We are committed to making all members of the Group thoroughly aware of the importance of compliance and working to restore confidence in our Group.

Outlook for Fiscal 2009

In fiscal 2009, there is a concern that the Japanese economy will come to a standstill in the face of the high prices of raw materials and the sharp appreciation of the yen that began in 2008. Although there are signs that the business climate surrounding the agricultural industry is recovering, we expect difficult business conditions to continue.

In Japan, we will achieve sales through the aggressive launch of new products in the growing category of rice transplanters and other categories. Overseas, we will seek further sales growth in Asian markets and build on our performance records in Europe and North America. In addition, we will continue to improve our profitability through cost reductions and other measures.

In our performance projections for fiscal 2009, we expect to achieve net sales of ¥154.5 billion, operating income of ¥3.3 billion, ordinary income of ¥1.9 billion, and net income of ¥600 million.

As we move forward toward our goals, we look forward to the continued support of our shareholders.

July 2008

S. Gamo

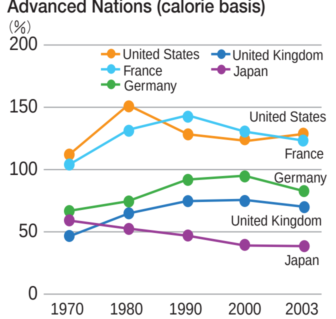
Seiichiro Gamo
President

Domestic Market

Targeting 20% Market Share by Promoting Low-Cost Agriculture

Yasuo Seike
Managing Director

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



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

Favorable sales of new PZ series riding-type rice transplanters

Sales in Japan declined 9.0%, to ¥122.7 million, affected by the falling demand for agricultural equipment.

Amid that decreasing demand, sales of the new PZ series riding-type rice transplanters made a strong showing. The first full model change in six years, the new PZ series has been well received by mid- to large-scale farmers and cooperative farmers, and its sales continue to expand favorably. The special features of the new PZ series include improved steering and manipulation.

Right from the start, rice transplanters have boasted an extremely high efficiency rate because they mechanized the physical action of laborers planting rice, freeing them from this backbreaking form of work. Nevertheless, along with the aging of the farming population in Japan and the long work hours, the job of planting rice is becoming burdensome even for machine operators.

The new PZ series adds a function that automates the complicated process of operating levers when turning the machine, greatly reducing the burden for elderly operators or operators who work long hours.

By introducing products that match market needs, we begin to feel again that we can stimulate demand in the market even though overall demand is in a slump. In the next section, we introduce another major function of the PZ series.

The PZ series PZ80 of rice transplanters

Market trends and business strategies

Domestic demand for agricultural equipment has a close relationship with agricultural policy. In particular, the setting of a minimum size of cultivation area as the standard for receiving government support in the agriculture reforms that began in October, 2005 had a significant effect on small-scale farmers. In turn, this is said to be one of the major reasons for declining demand for agricultural equipment. Moreover, it put further downward pressure on rice prices.

However, the Japanese government has revised its agricultural policy reforms, announcing a new policy, “2008 New Agriculture Policy for the 21st Century,” in reaction to the worldwide surge in grain prices and increasing food shortages.

Under the newly announced agricultural policy, the government is seeking to increase Japan's food self-sufficiency ratio and implement a strategy that will establish a stable food supply system in preparation for emergencies. One of the most important points of the policy initiatives is the pursuit of new potential uses for rice. Along with the lower birth rates and change of eating habits in Japan, the demand for rice as a principal food is declining. In contrast, the consumption of rice in other areas, such as fodder, processed foods (rice powder), and organic rice, is expanding. As a substitute for grain in fodder and for wheat-based food products, for which prices are soaring, rice is poised to become a long-term solution for the grain and food shortage problems of Japan.

Under these conditions, we are focusing our efforts on low-cost agriculture. The decline in prices of rice as principal and non-principal food and the rising prices for fertilizer and other agricultural chemicals are putting pressure on agricultural business operations. However, our PZ series of rice transplanters have reduced production costs and are compatible with sparse cultivation methods.

Compared with the higher density planting of the traditional method, sparse cultivation enables the same rice yields with only about half the number of seedlings. Furthermore, the method offers the benefits of less use of fertilizer and other agricultural chemicals, reducing expenses to approximately half of those of the traditional method.

Of course, sparse cultivation cannot be achieved just by using rice transplanters. The key is cultivation technology. Iseki has been developing the sparse cultivation method for nine years. We have accumulated significant know-how in this area, successfully using the method in all regions of Japan except for Hokkaido. Being able to offers users both the "hardware" and "software" of this technology is one of Iseki's strengths.

The goals of the agricultural policy reform and the initiatives of the new agricultural policy are to encourage large-scale farming and farming by corporations, including the entrance of general cooperations into the agricultural market. In response, Iseki is investing in developing new models that offer high performance and energy conservation, especially for large-scale agricultural equipment. We are also expanding the number of production bases capable of manufacturing large-scale agricultural equipment.

Our sales performance reflects these efforts. Entering 2008, sales of new products, such as the PZ series of rice transplanters and rice huller, supported overall sales growth above the industry average. We are also just one step away from reaching our target of a 20% or more share of the domestic market.

Reinforcing product competitiveness in growing fields

An attractive growth market other than the mainstream agriculture market is hobby farming by individuals who grow food for their own consumption. Along with baby boomers reaching retirement age and the growing interest in health, the number of people with vegetable patches is increasing.

In response to this trend, we are focusing our efforts on developing new tiller equipment adapted for hobby farming. In addition, we are endeavoring to expand our sales channels to home centers, do-it-yourself (DIY) shops, and other retailers, making efforts to acquire a new customer group other than farmers.

The business environment of the agricultural industry in Japan remains difficult. However, we intend to redouble our efforts to raise the food self-sufficiency ratio in Japan and to secure safe and reliable crop growing.

User Interview

Creator of Select Group of Professionals Is Driving Force in Regional Agricultural Industry

Yasunori Tsuchiya, Tochigi Prefecture

Mr. Tsuchiya cultivates quality rice in the hilly country near the source of the Ara River (on the Naka River system) in Tochigi Prefecture. Humble about his work, Mr. Tsuchiya says that his cultivation technology still has a long way to go due to his lack of experience. However, he has a strong reputation in the region for his careful work in such time-consuming tasks as weeding that underpin his production of safe and delicious rice.

Taking over the business from his father in 2003, Mr. Tsuchiya's original strategy was to expand the scale of the business and hire employees. Farmers in the region were somewhat distant at first with his decision to hire employees, but Mr. Tsuchiya was convinced that hiring employees would build a good reputation in the region.

His four employees have no experience with farming. Mr. Tsuchiya put his priority on nurturing and developing the workers themselves. His policy that even a small request by a farmer must be dealt with immediately even if it means putting off their work until later is spreading among all staff members. The significance of this select group of professionals developed by Mr. Tsuchiya will continue to grow in this region, where the aging of the farming population is progressing.

Moving forward with a view to incorporating his business, Mr. Tsuchiya has introduced flower and vegetable farming, aiming to be able to keep his workers on all year-round. Other farmers in the region have strong expectations that Mr. Tsuchiya will be a driving force in the revitalization of the region.

Overseas Markets

Keiichi Takeshita
Managing Director

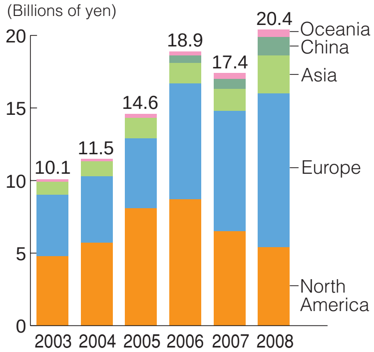
European and Asian Markets Strong, Sales Expand Substantially

In fiscal 2008, overseas sales advanced ¥3.2 billion, or 16.9%, to ¥22.0 billion. Strong sales in European and Asian markets supported this favorable performance.

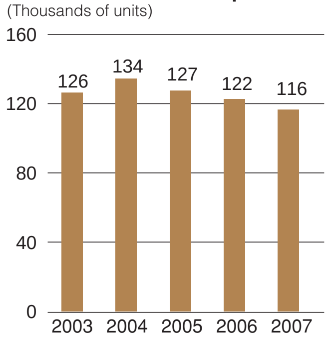
By product category, sales of cultivating and mowing machinery, which includes tractors and cultivators, increased 11.0% year on year, to ¥17.0 billion. Iseki achieved overall growth in this category despite the decline in sales in the North American market related to inventory adjustments by our OEM customer because of the strong sales growth in Europe. Among other product categories, sales of planting machinery jumped 104.7%, to ¥2.3 billion; sales of harvesting and processing machinery gained 9.6%, to ¥1.1 billion, and sales of parts for maintenance and farming implements grew 9.2%, to ¥1.1 billion.

As a result, the proportion of overseas sales in net sales increased 2.9 percentage points, to 15.2%, from 12.3%. We consider overseas sales to be the driver of overall sales growth and are endeavoring to boost their contribution to overall sales to 20% or more as soon as possible.

Overseas Sales
(Billions of yen)



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

Asia and Oceania

Sales surge in Korea and China

In fiscal 2008, sales in Asian markets surged ¥1.7 billion from a year earlier, to ¥3.9 billion.

By country, sales of large-scale tractors increased substantially in the Republic of Korea. In the People's Republic of China, demand for rice transplanters expanded, resulting in sales in China rising ¥600 million year on year, to ¥1.3 billion.

In China, the government is promoting the mechanization of agriculture. As of 2007, the degree of mechanization in rice cultivation had risen to 45% for harvesting and processing machinery and 11% for rice transplanters. Entering 2008, the need for greater food production increased, and the market has continued to expand. Sales of Iseki's rice transplanters are growing solidly. However, we are also building overall sales by launching products that match market needs, such as the introduction of a new high-power combine harvester in time for the rice harvest in the fall.

Sales in other Asian markets and in Oceania also grew firmly. By introducing new products and enhancing our after-sales service organizations, we are working to increase our market shares in these markets.

Rice transplanters for the China market (PZ60)

Compact tractor for the North America market (GC2400)

North America

Orders increasing since start of 2008

In this market, Iseki supplies AGCO Corporation, a leading global agricultural equipment manufacturer, with compact tractors on an OEM basis.

In the fiscal year ended March 2008, sales in North America declined ¥1.1 billion from the previous fiscal year, to ¥5.4 billion. The adjustments of compact tractors that AGCO began in 2006 continued to affect North American sales during the fiscal year. However, AGCO completed the two-year long process in 2007 and entering 2008 operations began to recover, with orders exceeding those of the preceding year.

There are concerns that the subprime mortgage loan problem in the United States could lead to an economic recession. However, AGCO has posted a strong performance. Based on this fact in combination with the launch of new Iseki products that meet market needs, we expect to make further progress with recovery and increasing market share.

Europe

Sales of compact tractors and riding mowers firm

In fiscal 2008, sales in Europe rose sharply, increasing ¥2.3 billion from a year earlier, to ¥10.6 billion.

In the European market, sales to the landscaping market, including sales of compact tractors and riding mowers, were strong. The agricultural-use tractor market was also favorable, with high demand for new products, partially because of a shortage of used compact and high-performance equipment made in Japan.

The start of fiscal 2009 has also been strong, with performance comparable to that of the previous fiscal year. Iseki is planning to further expand sales in this region by introducing new products in tune with market needs and by focusing on making entrances to the agricultural tractor markets in central and eastern and southern Europe.

Riding mower (SXG15)

User Interview

Farming Contractor Exclusively Uses ISEKI Products

Tiantsai Tsai, Taichung, Taiwan

On June 24, we visited Mr. Tiantsai Tsai, a farming contractor in Taichung, Taiwan, right in the middle of the rice harvest.

He is a typical farming contractor in Taiwan, with annual contracted farmland of about 100ha for his HJ698 combine harvester and about 250ha for his PZ80 rice transplanter. Usually, he works the fields just with his wife, with his eldest son, a university student, occasionally lending a hand.

Mr. Tsai's business relationship with us goes back 17 years, when he bought his first combine harvester—he is now on his fourth model. His current rice transplanter is also an ISEKI, his fifth. He is a loyal customer and buys only our equipment.

When we asked him what he thought of our products, Tiantsai Tsai gave them high marks: "The HJ698 combine harvester is easy to operate and sorts very nicely. The PZ80 is also easy to operate. The main reasons I have continued to buy ISEKI products are the fast service of the sales agency, the high level of technical capabilities, and their trustworthiness. When I replace my current equipment, you can be sure it will with an ISEKI product."

Manufacturing and Development

Addressing the Needs of Individual Regions and Strengthening Environmentally Friendly Product Development Based on a Global Development Network

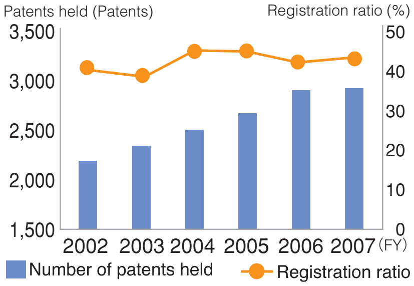
Motonobu Kikuchi, Managing Director

Iseki Wins Japan Patent Office Commissioner's Award

Iseki's technology development capabilities are highly evaluated. In the fiscal 2008 Awards for Leading Companies in the Use of the Industrial Intellectual Property Rights System, Iseki was awarded the Japan Patent Office Commissioner's Award.

Iseki intends to further accelerate the production of products with high performance and durability, ease of use and reliability, and price competitiveness by utilizing its intellectual property to develop new products and to improve the performance and functionality of existing products.

Number of Patents Held and Registration Rates



Patent Approval Rates and Published Patents

Highest patent approval rate in all industries for four consecutive years

Fiscal Year	2004	2005	2006	2007
Iseki	84.6%	83.7%	90.4%	89.3%
Ranking	1st	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 seven consecutive years

Fiscal Year	2000	2001	2002	2003	2004	2005	2006
Ranking	1st	1st	1st	1st	1st	1st	1st

Source: Japan Patent Office annual reports for 2002 to 2008

Worldwide development network

Iseki's R&D system comprises the head office, which develops agricultural equipment and facilities and diesel engines, and affiliated companies, which develop such products as compact agricultural equipment and food processing machinery.

Attaching importance to the development of products that suit the features of individual markets around the world, we have rounded out our development network with N.V. ISEKI EUROPE S.A.; with our North American representative office; with ISEKI–CHANGZHOU MFG. CO., LTD., in China; and with our Thai representative office. Through this global development network, we are developing new technology and products that meet local market needs in a timely manner.

Product development the domestic market

Our development themes for the domestic agricultural equipment market are low cost, energy conservation, and high performance. In our ISEKI PZ series of rice transplanters, our representative model is expected to contribute to low-cost agriculture. Our ATK series high cost-performance tractors have attracted a lot of attention in the market since their launches.

We are also responding to the trend to large-scale farming. In 2006, we developed a large,100-horsepower tractor and in 2008 introduced a new model with 117 horsepower.

Product development in overseas market

In overseas markets, development themes match market needs, such as the development of well-designed, high performance products in Europe and North America and durable and low-cost equipment in Asian markets. In the European and North American markets, where agricultural equipment manufacturers from all over the world compete fiercely, great importance is attached to highly functional designs for superior performance. In Asia, especially in China, durability is an absolute requirement, because one year of operation is equivalent to several years of operation in Japan. Because price competition is also intense, following the start of production in China of a combine harvester for that market, we began producing a rice transplanter for the Chinese market at ISEKI–CHANGZHOU MFG. CO., LTD., from 2008.

Quality control and environmentally friendly products

Two common themes of our product development in domestic and overseas markets are high quality and environmental protection. We are constantly working to improve quality and to supply products that customers all over the world will be pleased with.

In our environmental protection, we are endeavoring to strengthen our development system to achieve high power output as well as low fuel consumption, noise, and vibration. Furthermore, we are decreasing the environmental footprint of our products by reducing their number of parts, by making them lighter, and by designing them for easier recycling on their disposal. We also have developed and commercialized a nutriculture system to meet organic cultivation needs in agriculture.

Corporate Governance

(1) Basic Thoughts for Internal Control System

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

1. Compliance oriented management

We have strived to consolidate our internal control system, positioning the firm establishment of the Group's internal control system as a most important issue of management policy. With respect to the system, to ensure the efficient execution of the job of directors, we have not merely prepared various regulations and systems, such as the job assignment regulation and the internal control regulation. Rather, important issues are given multilateral discussion and study at the management meeting. Furthermore, we have a system to properly keep in custody and control any information related to their job execution, such as the minutes of the Board of Directors and approval documents.

In terms of a compliance system, we created an across the organization "compliance team" under the supervision of the director in charge of compliance as of June 1, 2007. We endeavor to prevent any occurrence of injustice and misconduct by ensuring a full understanding of compliance on the part of all directors and employees by continuously holding compliance seminars with the initiative of the team.

As an organization concerned with internal control, we created a Management Control Section under the control of the Head of the Development & Production Division as of June 1, 2007 which assumed the ordinary monitoring function of our manufacturing subsidiaries. Thus, we intend to strengthen the control function of our manufacturing subsidiaries.

For sales and other subsidiaries, we let them handle internal auditing themselves by having an internal auditing function at each company. Furthermore, we created a Management Control Section under the head of the Business Division as of June 1, 2007 that inspects the degree of implementation of internal auditing and gives necessary guidance.

We also created a "Management Supervisory Committee" as of June 1, 2007 that comprises of the president as chairperson, all directors as members, and all auditors as observers so that we can follow up the progress of measures to prevent a recurrence of misconduct as well as to check the degree of completeness.

For payments made during the period from May 2006 to April 2007, our subsidiaries Iseki-Matsuyama Mfg. Co., Ltd., Iseki-Kumamoto Mfg. Co., Ltd. and Iseki-Niigata Mfg. Co., Ltd., received a correction recommendation from the Japan Fair Trade Commission on May 16, 2008, for violation of the Law on the Prevention of Delay in the Payment of Subcontracting Charges and Related Matters (hereafter "Subcontracting Law") in connection with a decrease in the amount of payment to subcontractors. We have most sincerely accepted the correction recommendation by promptly implementing corrective measures in accordance with the recommendation, and we are determined to make renewed efforts to enhance attitudes towards compliance of each of the companies of the ISEKI Group as well as to reinforce our system to observe the Subcontracting Law, thus ensuring a thorough understanding to prevent the recurrence of such misconduct.

Going forward, we and our consolidated subsidiaries will combine forces to rebuild confidence in the Group's operations.

2. Rejection of antisocial forces

We actively work against any possibility of a relationship with antisocial forces or groups, manifesting the policy in the "Iseki Group Code of Ethical Behavior." In order to establish the corporate ethics of Iseki and the Group companies, we show action guidelines regarding antisocial forces in the "Iseki Group Code of Ethical Behavior," and we have prepared a system to reject antisocial forces and relevant activities. The General Affairs Department is in charge of control and correspondence regarding the issue, and depending on the circumstances we act in consultation with the relevant section. We maintain ordinary contacts and association with external organizations, such as the police department, anti-violation movement promotion centers, and lawyers, thus preparing a system to cope with antisocial forces. We also belong to the Metropolitan Area Violation Prevention Association to receive regular guidance and sharing of information.

(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	
Mitsuo Kamimoto	(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 7 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

6 CPAs

25 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.

Board of Directors

From left: Yasuo Seike, Kazutaka Yamaji, Keiichi Takeshita, Seiichiro Gamo, Kenji Minami, Motonobu Kikuchi, Nobuo Fujita

President	Seiichiro Gamo*	Managing Directors	Motonobu Kikuchi
Vice President	Kenji Minami*		Yasuo Seike
Managing Directors	Keiichi Takeshita		Susumu Tada
	Kazuyoshi Sonoda		

*Representative Director

(6) Internal Auditing and Oversight of Auditors

The Board of Corporate Auditors has 4 members, including 3 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 with a staff of 7 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 directors ········ ¥180 million

Compensation paid corporate auditors ········ ¥59 million

2) Details of Independent Public Audit Firm's Compensation

Compensation paid firm for services falling under Article 2, Paragraph 1 of the Certified Public Accountant Law ········ ¥42 million

Compensation paid for other services (Advice regarding internal control system assessment and conversion of financial statements to English language financial statements) ········ ¥14 million

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

In accordance with the requests of the Tokyo Stock Exchange and the Osaka Securities Exchange, the Company submitted a report on improvements in June 2007, followed by a progress report on improvements in December 2007. During the period between reports, the Company implemented compliance training as stated in the original report on improvements and worked to enhance its compliance.

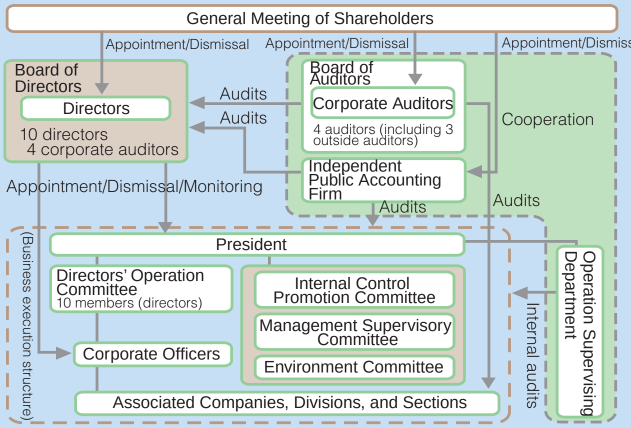
We, Iseki, believe that the timely disclosure of information is essential to building a good relationship with stakeholders. To that end, we endeavor to proactively disclose information, actively holding information meetings on quarterly performance.

The Company also addresses environmental issues. It has an Environmental Committee and regularly publishes an environmental report (last published August 2007). 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 also publish an intellectual property rights report (last published August 2007) disclosing our research and development activities and strategies for strengthening our intellectual assets.

On June 1, 2007, Iseki formed a Management Supervisory Committee. 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.

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



Corporate Auditors

From left: Kazuyoshi Sonoda, Yasunori Maki, Susumu Tada

From left: Keiji Ito, Toshifumi Tsukitani, Norio Yasunaga, Katsuhisa Ishida

Directors	Nobuo Fujita	Corporate Auditors	Keiji Ito
	Yasunori Maki		Norio Yasunaga
	Kazutaka Yamaji		Katsuhisa Ishida
			Toshifumi Tsukitani

(As of June 26,2008)

(10) Stipulated Number of Members of Board of Directors

The Company's articles of incorporation stipulate that the Board of Directors shall comprise no more than 10 directors.

(11) Requirement for Election of Directors

The articles of incorporation stipulate that directors of the Company shall be elected by a majority of votes by shareholders at the general meeting of shareholders, where the shareholders present represent one-third or more of the total voting rights of shareholders. The articles of incorporation also stipulate that directors may not be elected by cumulative voting.

(12) Items that May be Decided by the Board of Directors Instead of Resolution of the General Meeting of Shareholders and Their Purpose

1. Acquisition of treasury stock

As prescribed in the provisions of Article 165, Paragraph 2 of the Corporation Law, the articles of incorporation stipulate that the Company may acquire treasury stock based on a decision by the Board of Directors. This provision allows the systematic pursuit of funding strategies.

2. Absolution of directors from liability

As provided for in Article 426, Paragraph 1 of the Corporation Law, the articles of incorporation stipulate that the Company may absolve directors (including past directors) from liability as defined in Article 423, Paragraph 1 of the same law under the limit of the law based on a decision by the Board of Directors provided that the directors have acted in good faith and have not been excessively negligent in their duties. This provision enables directors to pursue their duties to the full extent of expectations.

3. Absolution of corporate auditors from liability

As provided for in Article 426, Paragraph 1 of the Corporation Law, the articles of incorporation stipulate that the Company may absolve corporate auditors (including past corporate auditors) from liability as defined in Article 423, Paragraph 1 of the same law under the limit of the law based on a decision by the Board of Directors provided that the corporate auditors have acted in good faith and have not been excessively negligent in their duties. This provision enables corporate auditors to pursue their duties to the full extent of expectations.

4. Absolution of independent public audit firm from liability

As provided for in Article 426, Paragraph 1 of the Corporation Law, the articles of incorporation stipulate that the Company may absolve the independent public audit firm (including past independent public audit firms) from liability as defined in Article 423, Paragraph 1 of the same law under the limit of the law based on a decision by the Board of Directors provided that the independent public audit firm has acted in good faith and has not been excessively negligent in its duties. This provision enables the independent public audit firm to pursue its duties to the full extent of expectations.

(13) Requirements for Approving a Special Resolution of the General Meeting of Shareholders

The articles of incorporation stipulate that special resolutions as provided for in Article 309, Paragraph 2 of the Corporation Law may be decided by a majority of two-thirds or more of votes by shareholders at the general meeting of shareholders, where the shareholders present represent one-third or more of the total voting rights of shareholders. This provision enables the smooth proceedings of general meetings of shareholders by lowering the quorum requirement.

Financial Section

Consolidated Five-Year Financial Summary

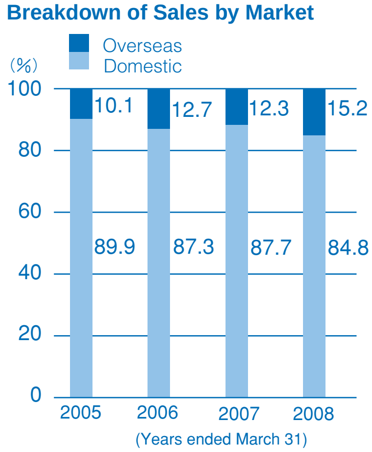
ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31

	Millions of yen					Thousands of U.S. dollars
	2008	2007	2006	2005	2004	**2008**
For the year:						
Net sales	**¥144,714**	¥153,729	¥161,744	¥157,462	¥153,624	**$ 1,444,251**
Cost of sales	**99,602**	105,309	109,088	106,555	103,664	**994,032**
Selling, general and administrative expenses	**44,376**	46,176	46,337	45,817	44,149	**442,874**
Operating income	**736**	2,244	6,319	5,090	5,811	**7,345**
Net (loss) income	**(1,467)**	18	2,662	1,378	2,206	**(14,641)**
Capital expenditures	**5,212**	5,693	5,330	5,364	5,080	**52,016**
Depreciation and amortization	**4,026**	3,590	3,677	3,944	4,483	**40,180**
At year-end:						
Total assets	**173,198**	181,363	180,440	182,183	196,367	**1,728,523**
Total net assets	**52,556**	55,724	55,092	49,268	48,705	**524,511**
Number of employees	**6,513**	6,765	6,680	6,665	6,644	
Per share data:	Yen					U.S. dollars
Net (loss) income	**¥ (6.49)**	¥ 0.08	¥ 12.21	¥ 6.32	¥ 9.96	**$ (0.06)**
Diluted net income	**—**	0.07	10.82	5.92	—	**—**
Net assets	**225.76**	239.71	243.91	227.52	222.86	**2.25**
Cash dividends	**—**	—	3.00	3.00	3.00	**—**
Ratios:	%					
Return on equity	**(2.8)**%	0.0%	5.1%	2.8%	4.6%	
Return on assets	**(0.8)**	0.0	1.5	0.7	1.1	
Shareholders' equity to total assets	**29.4**	29.8	30.5	27.1	24.8	

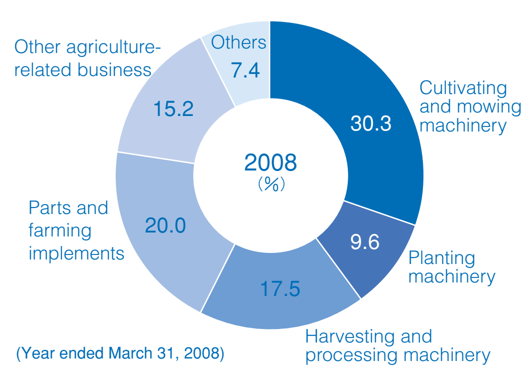
Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥100.20 to US$1.00, the approximate rate of exchange at March 31, 2008.

Definitions: Return on equity = 100 x net income (loss) / average net shareholders' equity in the fiscal period
Return on assets = 100 x net income (loss) / 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



Management's Discussion and Analysis

Overview

In fiscal 2008, ended March 31, 2008, domestic demand for agricultural machinery continued very inactive because of structural problems, such as the aging and the dwindling number of farmers, coupled with restrained purchasing and wait-and-see attitude as a result of dropped rice price and agricultural policy reform. There is, however, a sign that the market is bottoming out with a move to review Japan's agricultural policy and a stabilization of rice prices. And exports, on the other hand, continued to shift favorably upwards throughout the year under review from the previous fiscal year.

Under the circumstances, the ISEKI Group made efforts to broaden its line of new products to meet the diverse needs of customers and aggressively promoted activities to increase both domestic sales and exports. Despite these efforts, net sales declined 5.9%, or ¥9.0 billion, to ¥144.7 billion.

Overseas

Overseas sales advanced 16.9%, or ¥3.2 billion, to ¥22.0 billion. Because of the influence of the inventory adjustments of tractors by Iseki's U.S. OEM customer, sales of machinery for soil preparation increased to ¥17.0 billion (up 11.0% from the previous period) mainly contributed by active sales in Europe more than offsetting reduced tractor sales in North America. Sales of cultivating machinery rose to ¥2.3 billion (up 104.7%), of harvesting and processing machinery to ¥1.1 billion (up 9.6%), and of farming implements and spare parts to ¥1.1 billion (up 9.2%).

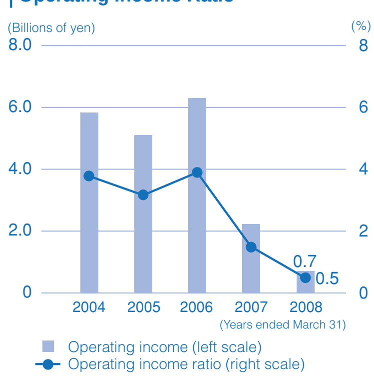
Sales were notably strong in China and other Asian markets.

Domestic

Sales in the Japanese market decreased 9.0%, or ¥12.2 billion, to ¥122.7 billion.

Because of the slump in the agricultural equipment market, sales of machinery for soil preparation (tractors, tillers, etc.) dropped to ¥26.9 billion (down 8.3% from the previous period). While sales of tillers and high-clearance multi-purpose vehicles increased, sales of tractors, which are our main products, declined. Sales of cultivating machinery (rice transplanters and vegetable transplanters) increased to ¥11.5 billion (up 8.3% from the previous period) helped by strong sales of PZ series rice transplanters, which were put on the market in the previous fiscal year. Sales of harvesting and processing machines were at ¥24.2 billion (down 15.5%) due to decreased sales of main force combine harvesters and drying machines. Sales of farming implements and spare parts were ¥27.9 billion (down 6.5%). Sales of other agricultural related items stood at ¥21.6 billion (down 13.4%). Sales of agricultural facilities stood at ¥4.0 billion (down 36.1%). Other sales were ¥10.6 billion (down 8.0%).

Operating Income and Operating Income Ratio



Costs, Expenses, and Earnings

Operating income declined ¥1.5 billion, to ¥0.7 billion (down 67.2%), due to decreased gross profit, which reflected reduced sales as well as a lowered gross margin due to rising material costs.

Ordinary income decreased ¥1.3 billion from the previous period to ¥34 million (down 97.3%). Net income decreased to ¥1.5 billion for a net loss of ¥1.5 billion due to a reversal of deferred tax assets, etc.

Financial Condition

Total assets at March 31, 2008, decreased ¥8.2 billion, to ¥173.2 billion. In total assets, current assets decreased ¥5.7 billion from the previous fiscal year. The main components of the decline were decreased notes receivables and accounts receivables of ¥3.1 billion due to reduced sales and decreased inventory of ¥2.9 billion. Fixed assets decreased ¥2.5 billion. Investments and other assets decreased ¥2.0 billion, centering on investment securities. Total liabilities decreased ¥5.0 billion as a result of reduced accounts payable and allowance for retirement benefits. Net assets decreased ¥3.2 billion from the previous fiscal year, to ¥52.6 billion. The equity ratio was 29.4%.

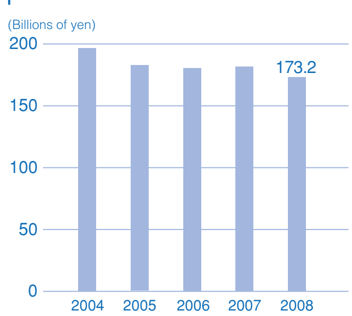
Cash Flows

Cash flows from operating activities resulted in net revenue of ¥3.9 billion (net revenue increased ¥3.0 billion from the same period last year) due to a before tax net loss of ¥0.5 billion, a decrease in inventory assets of ¥2.9 billion, and a decrease in accounts receivable of ¥3.1 billion, etc.

Cash flows from investing activities resulted in net expenditure of ¥2.9 billion (a decrease of ¥1.8 billion from the same period last year), mainly due to capital investment expenditure of ¥5.2 billion, revenue from a sale of investment securities of ¥2.6 billion, and an expense for purchase of investment securities of ¥1.6 billion.

Cash flows from financing activities resulted in a net expenditures of ¥0.4 billion, compared with cash provided of ¥2.2 billion last year, a decline of ¥2.6 billion.

Total Assets



Basic Strategies of the Medium-term Business Plan

In the midst of a drastically changing market environment, we will speed up our earning structure reform to build corporate fundamentals that will enable us to secure stable earnings for the foreseeable future. Along with our efforts to maintain and expand sales through enhanced customer satisfaction by way of providing high-quality products at low prices and offer service from the standpoint of customers, we endeavor to establish a low-cost structure and to strengthen our consolidated financial stability.

Against the background of heightened competition in the market, we position the recovery of domestic sales and expansion of overseas sales as our most important managerial issue and are trying to attain comprehensive enhancement of efficiency, quality, price, and service by concentrating on the total Group potentiality to strengthen our product competitiveness.

We are responding to environmental issues as a managerial priority. We will strengthen our commitment to resource saving, energy saving, recycling, exhaustion gas, and noise, etc.

Basic management strategies are as follows:

1. The expansion of overseas sales
2. To secure 20% share of the domestic agricultural machinery market
3. To strengthen product competitiveness further
4. To improve consolidated financial position by strengthening earning power and cash flow

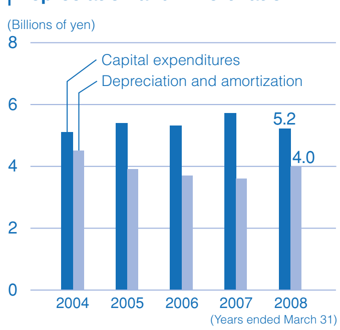
1. Overseas Sales

In regard to favorably expanding overseas sales, we will try for a recovery of the North American market through the introduction of new products and for a strengthening of our sales and service system in Europe, where solid demand continues, and in the Asian market, which has potential growth.

2. Domestic Market

In the domestic market, we aim at achieving a recovery of sales through efficient sales promotions, by taking advantage of sales companies with broad territories and a functional new organization, as well as through further enhancement of customer satisfaction by strengthened sales and service performance power.

Capital Expenditures and Depreciation and Amortization



3. Product Competitiveness

We will not only carry out a fundamental quality improvement of products, with an accurate comprehension of market needs, but also will undertake timely product planning and introductions to the markets.

In addition, we are taking steps to reduce costs and aiming to further improve our services with the goal of reinforcing our overall product competitiveness.

4. Consolidated Financial Structure

In the midst of a substantial hike in material prices, we will make efforts at all company and division levels to secure profitability by trying to reduce costs through a reduction of administrative losses and of other costs.

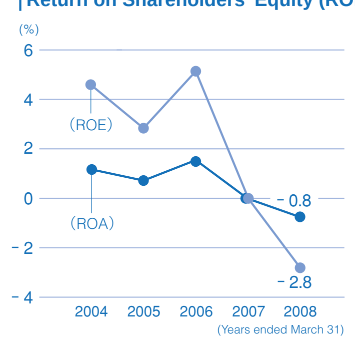
On top of these efforts, we are striving to strengthen the profitability and cash flow of our consolidated subsidiaries, thereby improving our consolidated financial structure. Moreover, we are continuing efforts to hold down our interest-bearing debt and improve the Group's overall efficiency of cash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

Dividends

We recognize that the method for determining dividends to be paid to shareholders is one of the most important policies to be made. Our basic policy is to keep steady and improved dividend distributions, taking into consideration not just consolidated financial results but also our Group's financial position and future business movements.

With respect to dividends for the fiscal year ended March 31, 2008, we decided to pass on the dividend payment. We are determined to take the necessary steps to reinforce a basis of earnings so that we will be able to secure profit stability, aiming at the earliest possible resumption of dividend payments.

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



Outlook for Fiscal 2009

With respect to the current business climate, there is concern for a downturn of the Japanese economy in view of the standstill of the recovery momentum of the economy in the midst of rising material prices caused by hiked oil and iron ore prices. We anticipate that tough conditions will persist in the environment surrounding agriculture, leading to more-intense competition in the market, in spite of some signs of improvement.

Under such circumstances, we will try to secure sales by aggressively introducing of new products. Domestically, we expect demand for agricultural machinery to remain at approximately the same level as in fiscal 2008 in light of the agriculture policy review and a stabilization of rice prices. We expect expanded domestic sales by the synergetic effect of our continuous introduction of new products, the further enrichment of our services, and the reinforcement of our sales power. Overseas, we expect further sales expansion in the already active Asian market and a recovery of orders in the North American market with the termination of the inventory adjustment by our OEM partner. In short, we expect an improved gross margin as a result of our cost structure reform implemented during the fiscal year ended March 31, 2008.

In fiscal 2009, we forecast net sales to increase ¥9.8 billion, or 6.8%, from fiscal 2008, to ¥154.5 billion. Out of this amount, we anticipate domestic sales to expand ¥7.8 billion, to ¥130.5 billion, benefiting from the reversal of the national agricultural policy to increasing food production. Overseas, we anticipate sales growth of ¥2.0 billion year on year, to ¥24.0 billion, based on a sales recovery in the North American market and the ongoing mechanization in the agricultural market in China.

We expect that operating income will increase ¥2.6 billion, to ¥3.3 billion. Moreover, we project that our bottom line will improve ¥2.1 billion, helping the Company to recovery profitability with net income of ¥600 million.

With respect to dividends for fiscal 2009, we will, as stated previously be obliged to forgo the dividend payment. We are concentrating our full efforts on strengthening our earnings base to enable stable earnings, aiming at the earliest possible resumption of dividends.

Consolidated Balance Sheets

ISEKI & CO., LTD. and Consolidated Subsidiaries
As of March 31, 2008 and 2007

Assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current assets:			
Cash and deposits *(Note 4)*	**¥ 5,818**	¥ 5,271	**$ 58,064**
Marketable securities *(Note 6)*	**53**	23	**529**
Notes and accounts receivable *(Note 5)*	**28,840**	31,951	**287,824**
Allowance for doubtful accounts	**(93)**	(125)	**(928)**
Inventories *(Note 7)*	**42,643**	45,511	**425,579**
Deferred income taxes *(Note 11)*	**313**	579	**3,124**
Prepaid expenses and other current assets	**3,117**	3,162	**31,107**
Total current assets	**80,691**	86,372	**805,299**
Property, plant and equipment at cost *(Note 8)*:			
Land *(Notes 9 and 10)*	**50,729**	50,562	**506,277**
Buildings and structures *(Note 10)*	**47,194**	45,687	**470,998**
Machinery, equipment and vehicles	**43,555**	43,502	**434,681**
Tools, furniture and fixtures	**25,176**	26,043	**251,258**
Other	**511**	243	**5,100**
Construction in progress	**651**	1,140	**6,497**
Less accumulated depreciation	**(87,995)**	(87,024)	**(878,194)**
Property, plant and equipment, net	**79,821**	80,153	**796,617**
Investments and other assets:			
Investment securities *(Note 6)*	**6,246**	8,744	**62,335**
Investments in unconsolidated subsidiaries and affiliates	**79**	79	**789**
Intangible assets	**835**	987	**8,333**
Deferred income taxes *(Note 11)*	**596**	697	**5,948**
Other	**5,585**	5,023	**55,739**
Allowance for doubtful accounts	**(655)**	(692)	**(6,537)**
Total investments and other assets	**12,686**	14,838	**126,607**
Total assets	**¥173,198**	¥181,363	**$1,728,523**

Liabilities and net assets	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note 1) 2008
Current liabilities:			
Short-term borrowings *(Note 10)*	**¥ 25,093**	¥ 24,150	**$ 250,429**
Current portion of long-term debt *(Note 10)*	**9,570**	7,665	**95,509**
Notes and accounts payable, trade *(Note 5)*	**40,788**	42,353	**407,066**
Notes and accounts payable, construction *(Note 5)*	**459**	960	**4,581**
Accrued expenses	**3,525**	4,104	**35,179**
Deferred income taxes *(Note 11)*	**48**	34	**479**
Accrued income taxes *(Note 11)*	**511**	613	**5,100**
Other current liabilities *(Note 10)*	**3,072**	3,147	**30,659**
Total current liabilities	**83,066**	83,026	**829,002**
Long-term liabilities:			
Long-term debt *(Note 10)*	**23,272**	26,501	**232,255**
Accrued retirement benefits for employees *(Note 12)*	**4,164**	5,186	**41,557**
Accrued retirement benefits for directors and corporate auditors	**319**	306	**3,184**
Deferred income taxes *(Note 11)*	**8,449**	8,822	**84,321**
Other long-term liabilities *(Note 10)*	**1,372**	1,798	**13,693**
Total long-term liabilities	**37,576**	42,613	**375,010**
Total liabilities	**120,642**	125,639	**1,204,012**
Contingent liabilities *(Note 18)*			
Net assets:			
Shareholders' equity *(Note 13)*:			
Common stock:			
Authorized – 696,037,000 shares			
Issued – 226,536,329 shares at March 31, 2008 and 2007	**22,785**	22,785	**227,395**
Capital surplus	**12,815**	12,815	**127,894**
Retained earnings	**4,081**	5,548	**40,729**
Treasury stock, at cost:			
711,509 shares at 2008, and 690,113 shares at 2007	**(167)**	(163)	**(1,667)**
Total shareholders' equity	**39,514**	40,985	**394,351**
Valuation and translation adjustments:			
Net unrealized holding gain on securities *(Note 6)*	**908**	2,598	**9,062**
Land revaluation reserve *(Note 9)*	**10,527**	10,527	**105,060**
Translation adjustments	**32**	28	**319**
Total valuation and translation adjustments	**11,467**	13,153	**114,441**
Minority interests in consolidated subsidiaries	**1,575**	1,586	**15,719**
Total net assets	**52,556**	55,724	**524,511**
Total liabilities and net assets	**¥173,198**	¥181,363	**$1,728,523**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars *(Note 1)*
	2008	2007	2008
Net sales	**¥144,714**	¥153,729	**$1,444,251**
Cost of sales *(Note 14)*	**99,602**	105,309	**994,032**
Gross profit	**45,112**	48,420	**450,219**
Selling, general and administrative expenses *(Note 14)*	**44,376**	46,176	**442,874**
Operating income	**736**	2,244	**7,345**
Other income (expenses):			
Interest and dividend income	**366**	359	**3,653**
Interest expense	**(1,163)**	(1,015)	**(11,607)**
Gain on sales of investment securities *(Note 6)*	**1,347**	–	**13,443**
Loss on impairment of fixed assets *(Note 8)*	**–**	(26)	**–**
Loss on sales or disposal of property, plant and equipment, net	**(224)**	(266)	**(2,236)**
Gain on reversal of accrued retirement benefits for directors and corporate auditors *(Note 15)*	**28**	–	**279**
Special retirement benefits for employees *(Note 12)*	**(921)**	–	**(9,192)**
Payments to vendors related to prior years' purchases *(Note 16)*	**(126)**	–	**(1,257)**
Other, net	**(565)**	(488)	**(5,638)**
(Loss) income before income taxes and minority interests	**(522)**	808	**(5,210)**
Income taxes *(Note 11)*:			
Current	**650**	867	**6,487**
Tax refunds related to prior years	**(853)**	–	**(8,513)**
Deferred	**1,140**	(113)	**11,377**
	937	754	**9,351**
(Loss) income before minority interests	**(1,459)**	54	**(14,561)**
Minority interests in consolidated subsidiaries	**8**	36	**80**
Net (loss) income	**¥ (1,467)**	¥ 18	**$ (14,641)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	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	Translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
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
Net loss for the year	–	–	(1,467)	–	(1,467)	–	–	–	–	–	(1,467)
Purchases of treasury stock	–	–	–	(4)	(4)	–	–	–	–	–	(4)
Net changes in items other than shareholders' equity	–	–	–	–	–	(1,690)	–	4	(1,686)	(11)	(1,697)
Balance at March 31, 2008	**¥22,785**	**¥12,815**	**¥ 4,081**	**¥(167)**	**¥39,514**	**¥ 908**	**¥10,527**	**¥32**	**¥11,467**	**¥1,575**	**¥52,556**

	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	Translation adjustments	Total valuation and translation adjustments	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2007	$227,395	$127,894	$ 55,370	$(1,627)	$409,032	$ 25,928	$105,060	$279	$131,267	$15,829	$556,128
Net loss for the year	–	–	(14,641)	–	(14,641)	–	–	–	–	–	(14,641)
Purchases of treasury stock	–	–	–	(40)	(40)	–	–	–	–	–	(40)
Net changes in items other than shareholders' equity	–	–	–	–	–	(16,866)	–	40	(16,826)	(110)	(16,936)
Balance at March 31, 2008	**$227,395**	**$127,894**	**$ 40,729**	**$(1,667)**	**$394,351**	**$ 9,062**	**$105,060**	**$319**	**$114,441**	**$15,719**	**$524,511**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

ISEKI & CO., LTD. and Consolidated Subsidiaries
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	**2008**
Cash flows from operating activities			
(Loss) income before income taxes and minority interests	**¥ (522)**	¥ 808	**$ (5,210)**
Adjustments for:			
Depreciation and amortization	**4,026**	3,590	**40,180**
Loss on impairment of fixed assets	**–**	26	**–**
Gain on sales of investment securities	**(1,347)**	–	**(13,443)**
Interest and dividend income	**(366)**	(359)	**(3,653)**
Interest expense	**1,163**	1,015	**11,607**
Loss on sales or disposal of property, plant and equipment, net	**224**	266	**2,236**
Special retirement benefits for employees	**921**	–	**9,192**
Changes in operating assets and liabilities:			
Decrease in notes and accounts receivable	**3,110**	2,897	**31,038**
Decrease (increase) in inventories	**2,868**	(5,594)	**28,623**
(Decrease) increase in notes and accounts payable, trade	**(1,564)**	748	**(15,609)**
Other, net	**(2,185)**	(809)	**(21,807)**
Subtotal	**6,328**	2,588	**63,154**
Interest and dividends received	**370**	356	**3,693**
Interest paid	**(1,162)**	(1,025)	**(11,597)**
Income taxes paid	**(813)**	(1,592)	**(8,114)**
Tax refunds received	**59**	576	**589**
Special retirement benefits paid to employees	**(921)**	–	**(9,192)**
Net cash provided by operating activities	**3,861**	903	**38,533**
Cash flows from investing activities			
Purchases of marketable securities	**(23)**	(23)	**(230)**
Proceeds from sales of marketable securities	**23**	146	**230**
Purchases of property, plant and equipment	**(5,136)**	(5,471)	**(51,257)**
Proceeds from sales of property, plant and equipment	**696**	991	**6,946**
Purchases of investment securities	**(1,615)**	(100)	**(16,118)**
Proceeds from sales of investment securities	**2,598**	–	**25,928**
Decrease in time deposits with original maturities exceeding three months	**155**	96	**1,547**
Other, net	**398**	(357)	**3,972**
Net cash used in investing activities	**(2,904)**	(4,718)	**(28,982)**
Cash flows from financing activities			
Increase in short-term borrowings, net	**929**	4,255	**9,271**
Proceeds from long-term loans	**12,490**	18,180	**124,651**
Repayment of long-term loans	**(8,274)**	(19,437)	**(82,575)**
Redemption of bonds	**(5,540)**	(100)	**(55,289)**
Purchases of treasury stock	**(4)**	(9)	**(40)**
Dividends paid	**–**	(677)	**–**
Other, net	**(13)**	(4)	**(130)**
Net cash (used in) provided by financing activities	**(412)**	2,208	**(4,112)**
Effect of exchange rate changes on cash and cash equivalents	**157**	2	**1,567**
Net increase (decrease) in cash and cash equivalents	**702**	(1,605)	**7,006**
Cash and cash equivalents at beginning of year	**4,985**	6,590	**49,750**
Cash and cash equivalents at end of year (Note 4)	**¥ 5,687**	¥ 4,985	**$ 56,756**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

ISEKI & CO., LTD. and Consolidated Subsidiaries
March 31, 2008

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 Financial Instruments and Exchange Act of Japan.

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 ¥100.20 = U.S.$1.00, the exchange rate prevailing on March 31, 2008. 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 balance sheets.

(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 determined 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 specific 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 by the straight-line method over an estimated useful life of 5 years. Costs incurred for computer software used for marketing are also capitalized and amortized by the straight-line method over such software's estimated marketable period of 3 years.

(j) Leases

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

(k) 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.

(l) Accrued retirement benefits for employees

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 remaining 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.

(m) Distribution of retained earnings

Under the Corporation Law of Japan, the distribution 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, therefore, reflect such distributions.

3. Changes in Method of Accounting

Effective April 1, 2007, the Company and its domestic consolidated subsidiaries have adopted a new method of accounting for depreciation of property, plant and equipment acquired on or after April 1, 2007 based on the revised Corporation Tax Law of Japan. The effect of the adoption of this method on the accompanying consolidated financial statements for the year ended March 31, 2008 was insignificant.

Pursuant to the revision of the Corporation Tax Law, effective April 1, 2007, the Company and its domestic consolidated subsidiaries have adopted a method of accounting for depreciation which depreciates the residual value of property, plant and equipment acquired on or before March 31, 2007 that have been fully depreciated to their respective depreciable limits as prescribed in the Corporation Tax Law prior to the revision to memorandum value. Under this method, the residual value of these assets is depreciated in equal amounts over a five-year period. The effect of the adoption of this method was to decrease operating income and to increase loss before income taxes and minority interests by ¥428 million ($4,271 thousand) for the year ended March 31, 2008 from the corresponding amounts which would have been recorded under the previous method.

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, 2008 and 2007 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and deposits	**¥5,818**	¥5,271	**$58,064**
Less: time deposits with original maturities exceeding three months	**(131)**	(286)	**(1,308)**
Cash and cash equivalents	**¥5,687**	¥4,985	**$56,756**

5. 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, notes payable, trade of ¥2,275 million, and notes payable, construction of ¥169 million with maturity dates of March 31, 2007 were included in the respective balances of the accompanying consolidated balance sheet at March 31, 2007 and were settled on the next business day.

6. Securities

(a) Information regarding marketable securities classified as held-to-maturity debt securities at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	Carrying value	Fair value	Unrealized loss	Carrying value	Fair value	Unrealized loss	Carrying value	Fair value	Unrealized loss
Securities whose fair value does not exceed their carrying value	**¥250**	**¥249**	**¥(1)**	¥250	¥248	¥(2)	**$2,495**	**$2,485**	**$(10)**

(b) Information regarding marketable securities classified as other securities at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	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	**¥2,994**	**¥4,617**	**¥1,623**	¥2,719	¥7,065	¥4,346	**$29,880**	**$46,078**	**$16,198**
Debt securities	**3**	**3**	**0**	–	–	–	**30**	**30**	**0**
Subtotal	**2,997**	**4,620**	**1,623**	2,719	7,065	4,346	**29,910**	**46,108**	**16,198**
Securities whose carrying value does not exceed their acquisition costs:									
Equity securities	**599**	**502**	**(97)**	16	10	(6)	**5,978**	**5,010**	**(968)**
Debt securities	**97**	**78**	**(19)**	100	93	(7)	**968**	**778**	**(190)**
Subtotal	**696**	**580**	**(116)**	116	103	(13)	**6,946**	**5,788**	**(1,158)**
Total	**¥3,693**	**¥5,200**	**¥1,507**	¥2,835	¥7,168	¥4,333	**$36,856**	**$51,896**	**$15,040**

6. Securities (continued)

(c) Information regarding sales of securities classified as other securities for the years ended March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Carrying value of other securities sold	**¥2,601**	¥ –	**$25,958**
Gain on sales	**1,347**	–	**13,443**

(d) The carrying value of held-to-maturity debt securities and other securities with no determinable fair value at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Held-to-maturity debt securities:			
Discounted financial bonds	**¥ 23**	¥ 23	**$ 230**
Other securities:			
Unlisted equity securities	**826**	1,326	**8,243**

(e) The redemption schedule for securities with maturity dates classified as other securities and held-to-maturity debt securities at March 31, 2008 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	¥53	**¥220**	$529	**$2,196**
Total	¥53	**¥220**	$529	**$2,196**

7. Inventories

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Finished goods and merchandise	**¥38,316**	¥40,736	**$382,395**
Semifinished goods	**48**	43	**479**
Work in process	**3,011**	3,579	**30,050**
Raw materials and supplies	**1,268**	1,153	**12,655**
Total	**¥42,643**	¥45,511	**$425,579**

8. Loss on Impairment of Fixed Assets

Loss on impairment of fixed assets for the year ended March 31, 2007 amounted to ¥26 million, and consisted of buildings and structures of ¥2 million, and land of ¥24 million. Such loss on impairment of fixed assets is outlined as follows:

			Millions of yen
Use	Classification	Location	2007
Idle property	Land	Ebetsu City, Hokkaido Prefecture	¥18
Idle property	Land and buildings	Tsugaru City, Aomori Prefecture	8
		Total	¥26

No loss on impairment of fixed assets was recorded for the year ended March 31, 2008.

Loss on impairment of fixed assets was recorded for the year ended March 31, 2007 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 above 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.

9. 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 assets 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 ¥9,583 million ($95,639 thousand) and ¥9,025 million at March 31, 2008 and 2007, respectively.

10. Short-Term Borrowings and Long-Term Debt

Short-term borrowings principally represent short-term notes, short-term bank borrowings on deeds, and bank overdrafts at average interest rates of 1.54% and 1.38% at March 31, 2008 and 2007, respectively.

The Company has concluded certain 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, 2008 is summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Lines of credit	**¥20,000**	**$199,601**
Short-term borrowings	**5,500**	**54,890**
Available credit	**¥14,500**	**$144,711**

Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Zero coupon yen convertible bonds	**¥ 1,395**	¥ 6,795	**$ 13,922**
0.31% unsecured bonds due 2010	**1,000**	1,000	**9,980**
0.87% unsecured bonds due 2007	**–**	100	**–**
0.57% unsecured bonds due 2008	**60**	60	**599**
0.67% unsecured bonds due 2010	**140**	180	**1,397**
1.00% unsecured bonds due 2009	**50**	50	**499**
Loans principally from banks and insurance companies due through 2014 at an average interest rate of 1.75%	**30,197**	25,981	**301,367**
	32,842	34,166	**327,764**
Less: current portion	**(9,570)**	(7,665)	**(95,509)**
	¥23,272	¥26,501	**$232,255**

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, 2008, assets pledged as collateral for short-term borrowings of ¥7,965 million ($79,491 thousand), long-term loans of ¥3,948 million ($39,401 thousand) including the current portion of ¥1,543 million ($15,399 thousand), other current liabilities of ¥10 million ($100 thousand), and other long-term liabilities of ¥79 million ($788 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment:		
Land	¥ 9,013	$ 89,950
Buildings and structures	2,741	27,355
	¥11,754	$117,305

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

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 9,570	$ 95,509
2010	9,604	95,848
2011	7,850	78,343
2012	4,768	47,585
2013	984	9,820
2014 and thereafter	66	659
Total	¥32,842	$327,764

Installment payables to a local public entity due through 2016 were included in other current liabilities and other long-term liabilities. At March 31, 2008, the current portion of ¥10 million ($100 thousand) and the long-term portion of ¥79 million ($788 thousand) of these installment payables were interest bearing at an interest rate of 1.79%.

11. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporate, inhabitants' and enterprise taxes which, in the aggregate, resulted in a statutory tax rate of 40.0% for the years ended March 31, 2008 and 2007. The overseas consolidated subsidiary is subject to the income taxes of the country in which it operates.

The effective tax rate for the year ended March 31, 2007 differed from the statutory tax rate for the following reasons:

	2007
Statutory tax rate:	40.0%
Permanently non-deductible expenses	24.9
Per capita portion of inhabitants' taxes	17.9
Change in valuation allowance for deferred tax assets	5.4
Other	5.1
Effective tax rate	93.3%

A reconciliation of the statutory tax rate to the effective tax rate for the year ended March 31, 2008 is not presented since a loss before income taxes and minority interests was recorded in the current fiscal year.

The tax effects of temporary differences which gave rise to a significant portion of the deferred tax assets and liabilities at March 31, 2008 and 2007 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	**2008**
Deferred tax assets:			
Accrued retirement benefits	**¥ 663**	¥ 1,473	**$ 6,617**
Accrued bonuses for employees	**140**	326	**1,397**
Unrealized gain on sales of inventories and property, plant and equipment	**51**	55	**509**
Net operating loss carryforwards	**103**	501	**1,028**
Other	**191**	428	**1,906**
Offset against deferred tax liabilities	**(239)**	(1,507)	**(2,385)**
Net deferred tax assets	**¥ 909**	¥ 1,276	**$ 9,072**
Deferred tax liabilities:			
Reserve for deferred taxation on compensation for expropriation or exchange of property	**¥ 114**	¥ 175	**$ 1,138**
Unrealized holding gain on securities	**648**	1,735	**6,467**
Land revaluation reserve	**7,595**	7,595	**75,798**
Prepaid pension cost	**106**	542	**1,058**
Other	**274**	316	**2,734**
Offset against deferred tax assets	**(239)**	(1,507)	**(2,385)**
Net deferred tax liabilities	**¥8,498**	¥ 8,856	**$84,810**

12. Accrued Retirement Benefits

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

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2008 and 2007 for the defined benefit pension plans of the Company and its consolidated subsidiaries:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Retirement benefit obligation	**¥(25,410)**	¥(30,209)	**$(253,593)**
Plan assets at fair value	**11,196**	14,561	**111,737**
Unfunded retirement benefit obligation	**(14,214)**	(15,648)	**(141,856)**
Unrecognized benefit obligation at transition	**10,223**	11,683	**102,026**
Unrecognized actuarial loss	**1,903**	1,021	**18,992**
Unrecognized prior service cost	**(723)**	(857)	**(7,216)**
Net retirement benefit obligation	**(2,811)**	(3,801)	**(28,054)**
Prepaid pension cost	**(1,353)**	(1,385)	**(13,503)**
Accrued retirement benefits	**¥ (4,164)**	¥ (5,186)	**$ (41,557)**

The components of retirement benefit expenses for the years ended March 31, 2008 and 2007 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	**¥1,515**	¥1,408	**$15,120**
Interest cost	**496**	502	**4,950**
Expected return on plan assets	**(242)**	(195)	**(2,415)**
Amortization:			
Net retirement benefit obligation at transition	**1,460**	1,460	**14,571**
Actuarial loss	**215**	232	**2,145**
Prior service cost	**(134)**	(98)	**(1,338)**
Other	**64**	51	**639**
Retirement benefit expenses	**3,374**	3,360	**33,672**
Special retirement benefits	**921**	–	**9,192**
Total	**¥4,295**	¥3,360	**$42,864**

Special retirement benefits for the year ended March 31, 2008 presented in the above table represent the additional retirement benefits to employees who applied for the voluntary retirement program.

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

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2008 and 2007 are summarized as follows:

	2008	2007
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.0%**	2.0%

13. Shareholders' Equity

The Corporation Law of Japan 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, 2008 and 2007.

14. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses amounted to ¥3,894 million ($38,862 thousand) and ¥4,498 million for the years ended March 31, 2008 and 2007, respectively.

15. Gain on Reversal of Accrued Retirement Benefits for Directors and Corporate Auditors

Gain on reversal of accrued retirement benefits for directors and corporate auditors relates to the resignation of two directors on June 28, 2007 who voluntarily declined to receive retirement benefits of ¥28 million ($279 thousand), resulting in a related gain being recognized by the Company.

16. Payments to Vendors Related to Prior Years' Purchases

During the year ended March 31, 2008, the Japan Fair Trade Commission cautioned certain domestic consolidated subsidiaries to make compensation payments to its vendors with respect to discounts on purchases for the prior years in accordance with the Act against Delay in Payment of Subcontract Proceeds, etc, to Subcontractors.

In line with this caution, the subsidiaries made compensation payments of ¥126 million ($1,257 thousand) to vendors during the year ended March 31, 2008.

17. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2008 and 2007, 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		
	2008			2007			**2008**		
	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**	**¥ 32**	**¥ 4**	¥ 36	¥ 28	¥ 8	**$ 359**	**$ 319**	**$ 40**
Machinery, equipment and vehicles	**4,421**	**1,810**	**2,611**	3,433	1,232	2,201	**44,122**	**18,064**	**26,058**
Tools, furniture and fixtures	**5,730**	**3,335**	**2,395**	4,849	2,687	2,162	**57,186**	**33,284**	**23,902**
	¥10,187	**¥5,177**	**¥5,010**	¥8,318	¥3,947	¥4,371	**$101,667**	**$51,667**	**$50,000**

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2008 and 2007 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
	2008	2007	**2008**
Lease payments	**¥1,922**	¥1,573	**$19,182**
Depreciation	**1,765**	1,437	**17,615**
Interest expense	**152**	127	**1,517**

Future minimum lease payments subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥1,717	$17,136
2010 and thereafter	3,410	34,032
Total	¥5,127	$51,168

Future minimum lease payments subsequent to March 31, 2008 for non-cancelable operating leases are summarized as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥183	$1,826
2010 and thereafter	60	599
Total	¥243	$2,425

18. Contingent Liabilities

The contingent liabilities of the Company and its consolidated subsidiaries at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantees of bank loans of others	¥9,640	$96,208
Notes receivable discounted with banks	99	988
Notes receivable endorsed	507	5,060

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 value of assets and liabilities denominated in foreign currencies 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 their 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.

Disclosure of fair value information on derivatives has been omitted because all open derivatives positions qualified for hedge accounting at March 31, 2008 and 2007.

20. Amounts per Share

Amounts per share at March 31, 2008 and 2007 and for the years then ended were as follows:

	Yen		U.S. dollars
	2008	2007	**2008**
Net assets	**¥225.76**	¥239.71	**$ 2.25**
Net (loss) income:			
Basic	**(6.49)**	0.08	**(0.06)**
Diluted	**–**	0.07	**–**
Cash dividends	**–**	–	**–**

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at year end. Basic net (loss) income per share is computed based on the net (loss) income attributable 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, 2008 has not been presented because a net loss for the year then ended was recorded.

21. Business Reorganization

Effective January 1, 2008, the Company reorganized its 8 domestic consolidated subsidiaries and merged them into 3 subsidiaries. The purpose of this reorganization is to increase sales by establishing a sales and service system closer to local customers by utilizing management resources held by the subsidiaries as well as by enhancing the ability to respond to changes in markets resulting from mergers among these marketing companies. The new companies' names, the companies merged, a description of their businesses and the legal form of the business combinations are summarized as follows:

New company's name	Company merged	Description of business	Legal form of business combination
Iseki Kanto Co., Ltd.	Ibaraki Iseki Marketing Co., Ltd. Tochigi Iseki Marketing Co., Ltd. Saitama Iseki Marketing Co., Ltd. Chiba Iseki Marketing Co., Ltd.	Sales of agricultural machinery	Ibaraki Iseki Marketing Co., Ltd. became the surviving company and merged with the other companies.
Iseki Shinetsu Co., Ltd.	Nagano Iseki Marketing Co., Ltd. Niigata Iseki Marketing Co., Ltd.	Sales of agricultural machinery	Niigata Iseki Marketing Co., Ltd. became the surviving company and merged with the other company.
Iseki Kansai Co., Ltd.	Keiji Iseki Marketing Co., Ltd. Iseki Kinki Co., Ltd.	Sales of agricultural machinery	Iseki Kinki Co., Ltd. became the surviving company and merged with the other company.

The Company accounted for this reorganization as "transactions under common control" in accordance with "Accounting Standard for Business Combinations" (issued on October 31, 2003 by the Business Accounting Council of Japan) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10 issued on December 22, 2006). This business reorganization had no effect on the accompanying consolidated financial statements for the year ended March 31, 2008 because all companies merged were wholly-owned subsidiaries of the Company.

22. 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, 2008 and 2007 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 its domestic consolidated subsidiaries exceeded 90% of consolidated total assets and sales at March 31, 2008 and 2007 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, 2008 and 2007 were as follows:

	Millions of yen							
	2008				2007			
	United States	Europe	Other	Total	United States	Europe	Other	Total
Overseas sales	**¥5,679**	**¥11,221**	**¥5,141**	**¥ 22,041**	¥6,751	¥8,937	¥3,166	¥ 18,854
Consolidated net sales				**144,714**				153,729
Overseas sales as a percentage of consolidated net sales	**3.9%**	**7.8%**	**3.5%**	**15.2%**	4.4%	5.8%	2.1%	12.3%

	Thousands of U.S. dollars			
	2008			
	United States	Europe	Other	Total
Overseas sales	**$56,677**	**$111,986**	**$51,307**	**$ 219,970**
Consolidated net sales				**1,444,251**

(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.

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, 2008 and 2007, and the related consolidated statements of operations, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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.

Ernst & Young Shinnihon

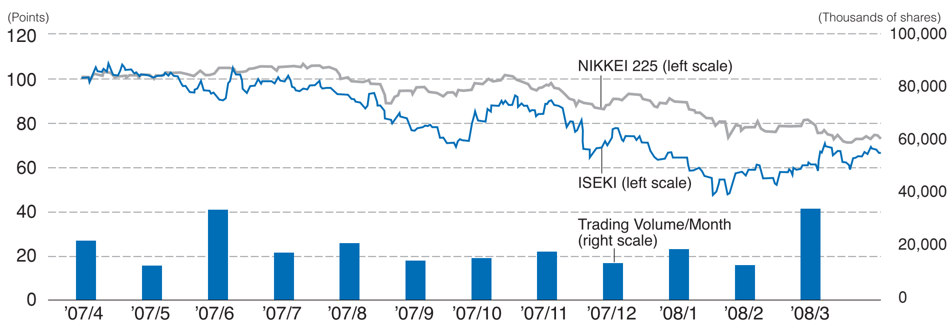
Osaka, Japan
June 26, 2008

Corporate Data

(As of March 31, 2008)

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)	6,513
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	29,338
Independent Auditor	Ernst & Young Shin Nihon

Stock Performance and Trading Volume per Month



	'07/4	'07/5	'07/6	'07/7	'07/8	'07/9	'07/10	'07/11	'07/12	'08/1	'08/2	'08/3
Opening Price	245	248	220	242	221	189	198	218	190	153	144	146
High	263	250	266	246	235	210	232	220	191	153	157	182
Low	242	219	214	221	183	167	193	150	150	112	124	140
Closing Price	247	223	241	223	189	197	218	189	156	143	149	162
Trading Volume/Month (Unit: thousands)	21,982	12,517	33,516	17,323	20,919	14,605	15,579	17,743	13,343	18,729	12,956	33,976

Share Price on April 1, 2007: ¥244 =100

ISEKI
ISEKI & CO., LTD.

3-14, Nishi-Nippori 5-chome, Arakawa-ku, Tokyo 116-8541, Japan
URL: http://www.iseki.co.jp/