

May 24, 2007

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Company Code: 6310

Stock Exchange Listings: Tokyo 1st Section, Osaka 1st Section

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**A report on the results of the investigation on inappropriate accounting
and our policy corresponding to the issue**

In our notice “The occurrence of a matter which affects our business performance” announced on March 23, 2007, we disclosed information regarding an inappropriate accounting practice at some of our consolidated manufacturing subsidiaries (hereinafter called “this issue”) and subsequent creation of an Internal Investigation Committee. In another notice of March 29, we disclosed the creation of an External Investigation Committee. We deeply regret and apologize to all our interested parties that this issue developed into a serious situation to oblige partial amendment of settlement of past fiscal years, causing a lot of trouble and inconvenience to you.

So far we have made the utmost efforts to investigate the factual relationship of this issue, to fix the actual amount of the amendment of the settlement of past fiscal years, and clear up the causes as well as study of measures to prevent any recurrence.

At the Board of Directors’ Meeting held today, the results of the investigation by the Internal Investigation Committee and the External Investigation Committee were approved. Hereunder, we would like to report on the details of this issue, an inappropriate accounting practice, its reason and background, punishments to directors and staff involved, measures to prevent its recurrence and other related matters.

In regards to details of the amendments to the settlements of the past fiscal years, please refer to “Partial amendment to Summary Announcement of Financial Results of past fiscal years (consolidated, non-consolidated)”

1. Particulars of developments to date since this issue was identified

There was a report made to the president of our Company on March 5, this year, that an inappropriate accounting practice was taking place at our consolidated manufacturing subsidiary, Iseki-Kumamoto Mfg. Co., Ltd., such as excessive appropriation of work in process. During the preparation of prospect for settlement of fiscal year ending March, 2007, there was a report to the Development & Manufacturing Division from Iseki-Kumamoto Mfg. Co., Ltd., that the settlement prospect would be worsened significantly. While the division was making a close examination of the cause, the subsidiary voluntarily declared with an understanding that further continuation of the inappropriate accounting practice was impossible.

Upon receiving the report, we set up a Special Investigation Team inside the Company to verify the truth of the reporting, and it was found that there was actually inappropriate accounting practice going on such as appropriation of items that ought to have been appropriated by nature as cost of goods manufactured, as work in process. We immediately conducted the same investigation on three other manufacturing subsidiaries with similar business models, Matsuyama, Niigata and Houei and identified similar unhealthy accounting practices at Iseki-Matsuyama Mfg. Co., Ltd. and also at Iseki-Houei Mfg., Co., Ltd.

As mentioned above, while we made a disclosure with a notice "The occurrence of a matter which affects our business performance" on March 23, this year in accordance with Article 2.2.2 of the Timely Disclosure Codes of the Stock Exchange, we set up an Internal Investigation Committee headed by our President as chairperson. The Special Examination Team was absorbed into the Internal Investigation Committee with reinforced personnel. We also set up an External Investigation Committee exclusively comprised of third parties who have no vested interest in our Company group on March 29, 2007, and we have carried out an investigation of this issue.

Both the External Investigation Committee and Internal Investigation Committee have conducted deliberate analysis and study of the exact amount subjected to the inappropriate accounting practices, confirmation of fiscal periods affected, method of this issue, reason and background of the occurrence as well as measures to prevent its recurrence, mainly through complete review of materials for the past 4 fiscal years and hearings from interested parties. It required approximately 2 months since March 23, 2007 until the overall picture and a magnitude of the amount to financial statements of the past fiscal years were identified. Today, we would like to report on the findings as set out below.

2. Outline of Investigation System

(1) Internal Investigation Committee

1) Responsibility

It has conducted investigations with the main responsibility to find facts and identify reasons why inappropriate accounting practices occurred at our 3 manufacturing subsidiaries and to elaborate measures to prevent its recurrence.

2) Composition of the Committee

The committee is composed of 5 directors headed by the President, and Head of Auditing Department as well as the Head of the Internal Control Department. In addition, 11 staff centering on the Auditing Department have participated in the investigation.

3) Subsidiaries Subjected to the Investigation

Our products are being manufactured at four companies, namely Iseki-Kumamoto Mfg. Co., Ltd., Iseki-Matsuyama Mfg. Co., Ltd., Iseki-Houei Mfg. Co., Ltd. and Iseki-Niigata Mfg. Co., Ltd., among which inappropriate accounting practices were found at 3 out of the 4 companies, which led us to include Iseki-Niigata Mfg. Co., Ltd. as a subject of investigation along with the other three.

4) Fiscal Years Subjected to the Investigation

According to declarations made by the 3 manufacturing subsidiaries, inappropriate accounting practices started as early as the fiscal year ended March 31, 2004, and judging from the progress of the work in process in question, there were no irregular process detected prior to the period. Therefore, we started an investigation from the fiscal year ended March 31, 2004.

5) Investigation Method

- Excess appropriation of work in process

With respect to Iseki-Kumamoto Mfg. Co., Ltd. and Iseki-Matsuyama Mfg. Co., Ltd., we investigated the gap between “Inventory Sheet B” which recorded the result of inventories as checked and the amended final inventory sheet “Inventory Sheet C” which allowed the investigation process to verify discrepancies in inventory. Also, with respect to Iseki-Houei Mfg. Co., Ltd., investigation was made into the discrepancy between the inventory sheets that recorded the result of inventories and the statement of work in process. Throughout the investigation, we have tried to inspect the correctness of declarations made by the three manufacturing subsidiaries as well as to verify existence of other inappropriate accounting practices.

- Other inappropriate accounting practices (such as excess appropriation of construction in process)

We have inspected the existence of inappropriate accounting practices by closely checking the factual evidence of evidential documents such as vouchers, accounting books and bills throughout the subjected fiscal periods.

(2) External Investigation Committee

1) Responsibility

It has provided verification, advice and guidance in regards to the contents of the investigation and elaboration of measures to prevent its recurrence by the Internal Investigation Committee, as well as clarification of the managerial responsibility.

2) Composition of External Investigation Committee

Lawyer	Yasuhiko Ikubo
Lawyer	Hirokazu Honda
Certified Public Accountant	Masaru Yamamoto
Certified Public Accountant	Motoharu Yokose

3. Outline of Inappropriate Accounting Practices

(1) Iseki-Kumamoto Mfg. Co., Ltd.

1) Excess appropriation of work in process (Start: March 2004)

In March 2004, the subject company manipulated profits in its cost accounting procedure trying to compensate for insufficient profit by reducing the manufacturing cost (cost of goods sold), and increasing work in process inventory on the books. This practice was done through manipulating the cost accounting system.

Normally in determining the inventory balance, there is a process to make adjustment of inventory amounts on the books by identifying the reason for discrepancies in inventory figures, and the subject company increased work in process in order to take advantage of this process.

The subject company engaged in the same practice for the September interim settlement and March year-end settlement.

2) Excess appropriation of stock and construction in progress

In March 2005, the subject company manipulated profits by transferring variable expenses (material costs, cost of outsourced parts, costs arising from outside manufacture) to “stock”, and reduced the corresponding amount from the variable expenses of the cost of goods sold.

In March 2005, the subject company transferred fixed costs (labor costs, etc.) among “costs of goods sold” to “construction in process” with the excuse that it was related to capital investment. Since then, the subject company engaged in similar practices in August 2005 and between December 2005 and March 2006.

The portions from March 2005 and August 2005 were transferred into fixed assets as completed items in May and November 2005 respectively.

In March 2006, the subject company manipulated profits by transferring variable expenses used for the manufacturing of products to “construction in progress” with the excuse that it was related to capital investment and deducted the corresponding amount from the variable costs of goods sold.

3) Under appropriation of accounts payable

The subject company manipulated profit in March, and between June and September 2006 through reducing the amount billed for purchasing. This manipulation was limited to the processing of vouchers so as not to influence the actual payment to contractors.

Between November 2005 and March 2006, the subject company manipulated profits by delaying appropriation of part of accounts payable.

4) Excess appropriation of prepaid expenses

In March and September 2006, the subject company manipulated profit through inflating the actual number of personnel dispatched, appropriating the corresponding amount as prepaid expenses, thus reducing personnel expenses.

(2) Iseki-Matsuyama Mfg. Co., Ltd.

1) Excess appropriation of work in process (Start: January 2004)

In order to compensate for insufficient profits, the subject company manipulated profits by reducing the cost of production of products (cost of goods sold) in its cost accounting procedures in January, February and March 2004,

thereby increasing the amount of work in process inventory on the books. This was done through the manipulating of the cost accounting system.

The method of taking advantage of the weak point of the checking function of the system happened to be the same as in the case of Iseki-Kumamoto Mfg. Co., Ltd., but the actual method of manipulation of the balance of work in process was different.

Normally in determining the inventory balance, there is a process for making adjustments in inventory amounts on the books by identifying the reason for discrepancies in the inventory figures. The subject company took advantage of this process to increase the work in process on the books. They engaged in a similar process for the interim settlement (September) and the end of the period settlement (March).

(3) Iseki-Houei Mfg. Co., Ltd.

1) Excess appropriation of work in process (Start: March, 2004)

In the actual inventory process for the settlement for the fiscal year ended March 31, 2004, there was a substantial discrepancy between inventory levels recorded on the books and the result of the actual inventory check. Since the subject company failed to identify the reason for this, the subject company ended up manipulating profits through excessively appropriating work in progress on the basis of the inventory on the books and through reducing the cost of production of the products (cost of goods sold). In the case of the subject company, the cost accounting system was not introduced yet, and the manipulation was made through the use of vouchers.

They engaged in similar activities for the interim-settlement (September) and year-end settlement (March) as well.

2) Under appropriation of accounts payable

The subject company manipulated profits by delaying part of the appropriation of purchases to October that ought to have been done in September 2006.

(4) Iseki-Niigata Mfg. Co., Ltd.

The subject company had very limited balance of work in process to start with, and we investigated whether there were any discrepancies between the

actual amount of inventory and the balance of work in process, but no particular excess appropriation of work in process was identified. We also investigated the existence of excess appropriations of construction in process and under appropriation of accounts payable, but no improprieties were found.

In addition, in the series of investigations, no personal embezzlement of money or goods was discovered.

The amounts of implemented inappropriate accounting practices by the three manufacturing subsidiaries are as follows:

Excess appropriation of inventory assets : ¥3,126 million (work in process)

Excess appropriation of construction in progress: ¥ 356 million

Excess appropriation of stock : ¥40 million

Under appropriation of accounts payable : ¥307 million

Excess appropriation of prepaid expenses : ¥19 million

Total: ¥3,850 million (rounded to the nearest million)

Breakdown by settlement period and manufacturing subsidiary are given in the following tables.

Actual amount manipulated by inappropriate accounting practices of 3 manufacturing subsidiaries

(Rounded down to millions of yen)

Iseki-Kumamoto Mfg. Co., Ltd.	① Excess appropriation of inventories (Work in process)	② Excess appropriation of construction in process	③ Excess appropriation of stocks	④ Under appropriation of accounts payable	⑤ Excess appropriation of prepaid expenses	Total
2 nd half of FY 2004	303	—	—	—	—	303
FY 2004	303	—	—	—	—	303
1 st half of FY 2005	225	—	—	—	—	225
2 nd half of FY 2005	598	50	77	—	—	726
FY 2005	823	50	77	—	—	951
FY2005(Accumulation)	1,127	50	77	—	—	1,255
1 st half of FY2006	208	54	(70)	—	—	192
2 nd half of FY2006	96	251	40	80	10	479
FY 2006	304	306	(30)	80	10	671
FY2006(Accumulation)	1,431	356	46	80	10	1,926
1 st half of FY 2007	181	—	(6)	192	9	376
Accumulation	1,612	356	40	273	19	2,303

Iseki-Matsuyama Mfg. Co., Ltd.	① Excess appropriation of inventories (Work in process)	② Excess appropriation of construction in process	③ Excess appropriation of stocks	④ Under appropriation of accounts payable	⑤ Excess appropriation of prepaid expenses	Total
2 nd half of FY 2004	412	—	—	—	—	412
FY 2004	412	—	—	—	—	412
1 st half of FY 2005	(88)	—	—	—	—	(88)
2 nd half of FY 2005	769	—	—	—	—	769
FY 2005	680	—	—	—	—	680
FY2005(Accumulation)	1,092	—	—	—	—	1,092
1 st half of FY2006	(165)	—	—	—	—	(165)
2 nd half of FY2006	381	—	—	—	—	381
FY 2006	216	—	—	—	—	216
FY2006(Accumulation)	1,309	—	—	—	—	1,309
1 st half of FY 2007	(104)	—	—	—	—	(104)
Accumulation	1,205	—	—	—	—	1,205

Iseki-Houei Mfg. Co., Ltd.	① Excess appropriation of inventories (Work in process)	② Excess appropriation of construction in process	③ Excess appropriation of stocks	④ Under appropriation of accounts payable	⑤ Excess appropriation of prepaid expenses	Total
2 nd half of FY 2004	81	—	—	—	—	81
FY 2004	81	—	—	—	—	81
1 st half of FY 2005	82	—	—	—	—	82
2 nd half of FY 2005	31	—	—	—	—	31
FY 2005	114	—	—	—	—	114
FY2005(Accumulation)	195	—	—	—	—	195
1 st half of FY2006	(9)	—	—	—	—	(9)
2 nd half of FY2006	17	—	—	—	—	17
FY 2006	8	—	—	—	—	8
FY2006(Accumulation)	204	—	—	—	—	204
1 st half of FY 2007	104	—	—	33	—	137
Accumulation	308	—	—	33	—	341

Total of three manufacturing companies	① Excess appropriation of inventories (Work in process)	② Excess appropriation of construction in process	③ Excess appropriation of stocks	④ Under appropriation of accounts payable	⑤ Excess appropriation of prepaid expenses	Total
2 nd half of FY 2004	796	—	—	—	—	796
FY 2004	796	—	—	—	—	796
1 st half of FY 2005	219	—	—	—	—	219
2 nd half of FY 2005	1,399	50	77	—	—	1,527
FY 2005	1,618	50	77	—	—	1,746
FY2005(Accumulation)	2,415	50	77	—	—	2,543
1 st half of FY2006	34	54	(70)	—	—	17
2 nd half of FY2006	495	251	40	80	10	878
FY 2006	529	306	(30)	80	10	896
FY2006(Accumulation)	2,944	356	46	80	10	3,439
1 st half of FY 2007	181	—	(6)	226	9	410
Accumulation	3,126	356	40	307	19	3,850

4. Impact on Financial Statements of Past Fiscal Years

Based on the results of an internal investigation on inappropriate accounting practices conducted at our consolidated manufacturing subsidiaries, we have made amendments to settlements of past fiscal periods, from fiscal year ended March 31, 2004 to interim period of fiscal year ended March 31, 2007. The accumulated affected amount (consolidated) resulted in reduction of operating profit by ¥3.705 billion and net profit by ¥4.270 billion respectively.

Also in non-consolidated accounting of ISEKI & CO., LTD., settlements of past fiscal years have been amended by appropriation of extraordinary losses such as evaluation loss of investment in affiliated companies etc. The accumulated affected amount resulted in reduction of net profit by ¥36.32 billion.

With respect to amendments to Securities Report and Summary Announcement of Financial Results for past fiscal years, subjected periods are from the fiscal year ended March 31, 2004 to the interim period of the fiscal year ended March 31, 2007. For details of amendments of settlements of past years, please refer to the “Notice on partial amendments to Summary Announcement of Financial Results of past fiscal years (consolidated, non-consolidated)” which will be announced today separately.

5. Participants in inappropriate accounting practices

According to the investigation by hearings with involved personnel at our manufacturing subsidiaries which was carried out in order to comprehend an outline of this issue, participants in this issue can be classified as follows depending upon their degree of commitment.

1) Participants

Participants may be classified into 3 categories, namely final decision makers who committed inappropriate accounting practices with autonomy and executors (main participants), and those who have not committed actively but were informed of the outline of this issue.

Among the main participants, final decision makers are those who made final decisions and either approved or instructed the execution, specifically the presidents of the 3 manufacturing subsidiaries. Executors are those who either voluntarily proposed the method or put it in practice upon consultation with the final decision makers upon approval or instruction by said final decision makers, specifically those persons in charge of profit control and cost control etc.

Those who were informed of the outline and recognized the existence of inappropriate accounting practices but did not know specific details of this issue are specifically, the general manager of control or administration department.

(2) Outline of hearings with those participants is as follows.

1) Iseki-Kumamoto Mfg. Co., Ltd.

Since the subject company became an independent company (April, 2001), the subject company continued to run a deficit, and the executor who thought something had to be done engaged in excess appropriation of work in process upon consultation with the general manager of administration (who later became president) and president. He meant to recover it in the following fiscal period, but it did not work well and the manipulated amount continued to increase. Since the general manager of administration became president, the executor did the manipulation upon direct consultation with the president. There was a control of information regarding this manipulation of accounting, and except for the executor and president, those who were aware of the existence was limited to the superior of the executor, the general manager of administration who was informed of its outline.

There was a staff member who performed the operation upon the instruction of the executor, but he did not know the entire picture himself. There has been neither communication made with other manufacturing subsidiaries in connection with this issue nor reporting made to the Administrative Department of Development & Production Division (Department in charge of manufacturing subsidiaries at our Company).

2) Iseki-Matsuyama Mfg. Co., Ltd.

There was a strong request to reduce costs from the Development & Production Division anticipating the effects of increased production, which led the subject company to make excess appropriation of work in progress reluctantly since January 2004. the subject company meant to recover it through cost reduction efforts in the following fiscal year, but it did not work as expected and the excess amount continued to increase instead. The method of manipulation was an initiative of the executor himself without any discussion with other manufacturing subsidiaries, and it was put into practice upon direct consultation with the (then) president. Therefore, the direct superior (general manager of administration) was left informed of only the outline. While the company had a heated argument with the Administrative Department over the profit target, they failed to report on this manipulation of accounting.

3) Iseki-Houei Mfg. Co., Ltd.

In March, 2004, the subject company was in the midst of confusion as a result of a move of the headquarters factory, which delayed the inventory check to April. As a result of the inventory check, the subject company found a much greater than expected discrepancy. The subject company thought it too late to reduce the profit once recorded, and instead the subject company made it consistent with the figures on the book. This manipulation of accounting was made by the executor upon consultation with the president. No reporting has been made to the Administrative Department regarding this accounting manipulation.

(3) Number of participants

The number of participants classified by category is as follows:

* Final decision makers	5 persons
* Executors	3 persons
* Those who were informed of the outline	3 persons

Total number of participants was 11 (Iseki-Kumamoto Mfg. Co., Ltd. 4, Iseki-Matsuyama Mfg. Co., Ltd. 5, Iseki-Houei Mfg. Co., Ltd. 2), and 9 persons excluding 2 retired persons were penalized as explained in 8.(1) “Punishment of participants” to be mentioned later in light of the graveness of the situation.

As mentioned before, every one of the participants declared that he has not consulted or reported to the Administrative Department, which is in the Development & Production Division and is in charge of manufacturing subsidiaries. Each executor devised the method of manipulation without consulting with other manufacturing subsidiaries. Furthermore, we have checked communication by writing or electric mail between Development & Production Division and manufacturing subsidiaries, but no material which showed existence of any instruction or suggestion made by the Administrative Department could be found.

In view of the above situation, while it was not recognized that the Administrative Department had been involved as the supervising department, we consider that their administrative responsibility is grave as mentioned later in 6.(2) 3) “Insufficient administration , guidance and weak checking function of Development & Production Department”

6. Background and reasons why it was not discovered for long period

(1) Background

- 1) Heavy pressure to accomplish business performance target (Profit / Cost down)

Factual relationship in fiscal year ended March 31, 2004 when the inappropriate accounting practices started is as follows:

The budget control system of our company group is composed of an initial budget called the “00 Budget” and a revised budget called the “01 Budget”. There is a settlement period of consolidated subsidiaries and a December settlement for sales subsidiaries and a March settlement for manufacturing subsidiaries. Instruction regarding the business performance target was sent to the Development & Production Division dispatched from Corporate Planning Department as of December 23, 2003 with the content “Notice regarding implementation of measures for profit”

Upon receiving the above notice, the Administrative Department gave instruction to 4 manufacturing subsidiaries (Matsuyama, Kumamoto, Niigata and Houei) and the Purchasing Department of our Company with the same effect. On January 10th, 2004, there were responses from each manufacturing subsidiary and Purchasing Department whose contents were reported to Corporate Planning Department.

During the process, we did not recognize that Development & Production Division gave inappropriate accounting practice instructions to 3 manufacturing subsidiaries (Matsuyama, Kumamoto and Houei). It is considered that these manufacturing subsidiaries took these instructions to improve profit as “Accomplishment of business performance is mandate, and there is no way to refuse. On the other hand, Administrative Department gave instructions allotting targeted amounts of profit improvement, but they did not go as far as to follow up on specific content of the profit improvement.

From the hearings, it is considered that participants thought that “it can be recovered soon”. By this we mean that the manipulation at the end of the previous period could have been absorbed by managerial efforts after April, 2004, and that while external environments contradicted their wishful thinking, they ended up adding further manipulation. Since repeating the same process as in fiscal year ended in March 31, 2004, we failed to grasp the fact.

With respect to the Purchasing Department, we made some investigations into the differences between the balance of accounts payable of 4 manufacturing subsidiaries as of the end of March, 2004 and actual amount paid in

the following month (April, 2004). As well as hearings, we judged that there was no inappropriate accounting practices coupled with the fact that profit improvement (cost down) itself ended up unaccomplished.

The Corporate Planning Department also gave instructions to the Sales Division to take measures to improve profit with the same effect. While the Sales Division instructed to sales subsidiaries in the meeting of presidents of sales subsidiaries in January (as sales subsidiaries have December settlement which was over) to accomplish January-March sales plan without fail, actual sales for January-March 2004 was substantially short of the targeted amount.

We conducted an inventory check of major sales subsidiaries (who cover approximately 50% of sales subsidiaries' inventory) as of the end of March 2007 in the presence of staff of ISEKI & CO., Ltd., and no particular problem was found.

2) Insufficient communication between manufacturing subsidiaries and Development & Production Division of the Company

Included in responses to hearings, there was a comment that “We had great difficulty trying to explain how to attain the target to Development & Production Division, as they had no ear to listen to”. While it was difficult to verify a lack of sufficient communication at that time, we judged that it cannot be denied that “communicative corporate culture” was not there as a result.

In addition, directors in charge of Development & Production Division of the Company were 1 division head and 1 deputy division head, and they split the role. The division head being responsible for development related to section and deputy division head manufacturing related section. As a result, administration and supervising of manufacturing subsidiaries was the responsibility of the deputy division head alone.

1) Lack of compliance conscious of participants

Making overall judgment of the hearings of participants, we understand that they did not have enough risk conscious that this inappropriate accounting practices could lead to serious infringement of laws and regulations and false statement of financial position, and that they did not have compliance conscious.

(2) Reason why it was not discovered for long period

1) Fixed personnel in highly professional area

3 executors of manipulation this time continued to be in charge of cost control without any transfer since the start of the inappropriate accounting practices. Particularly, in the case of executors of Iseki-Kumamoto Mfg. Co., Ltd. and Iseki-Houei Mfg. Co., Ltd., they continued to be in charge of the same business for 15 years and 10 years respectively and fixed personnel management of such a high professional area could have been one of the reasons why discovery was delayed. We judge that there was a fact of delayed education for personnel to substitute executors in the back of fixed personnel management.

2) Unsatisfactory internal auditing system to manufacturing subsidiaries

Auditing of manufacturing subsidiaries by the Auditing Department of ISEKI & CO., LTD was conducted approximately once every two years. However, such auditing failed to discover inappropriate accounting practices this time. Conceivable reasons were; insufficient understanding of cost accounting system, actual inventory check and the adjustment method of inventory discrepancies as well as absolute insufficiency of time required.

Also, it is understood that managers at departments in charge of cost control (control department / administration department) lacked conscious “constant monitoring”

3) Insufficient control / guidance and weakness of checking function in Development & Production Division.

We judge that there were defects in checking functions at our manufacturing subsidiaries as well as Administrative Department in Development & Production Division.

In spite of monthly reporting made to the supervising Administrative Department by each subsidiary on actual performances of profit, assets and liabilities and regular visits to the manufacturing subsidiaries for control and guidance, the department failed to discover this issue. Also, it is understood that despite the inclusion of “overall grasp of cost control” in the division of job duties, they overlooked the irregular value of cost by machine type and the monitoring was not functioning properly. Because of above reason, we consider it a grave responsibility of the Administrative Department for their insufficient control and guidance.

In regard to checking by administrative departments and according to the minutes of the managerial meeting, there was a past development where Financial Department raised an issue about increased work in process of each manufacturing subsidiary. The department received report on factors of the increase from each subsidiary and hence, continued to pursue the issue every month, but still they were unable to grasp the real situation.

4) Identification of the cause of end-period discrepancies of inventory and defects of system to determine final inventory.

We judge that the factor of these inappropriate accounting practices by manufacturing subsidiaries was derived from dishonest revision made to the revising step of inventory discrepancies by executor during the process of shifting from Inventory Sheet B which recorded the result of inventories as checked and the revised Inventory Sheet C. The content of the revision was not checked by responsible officers for controlling (general manager of administration, general manager of control).

5) Insufficient function of checking by IT

Among the methods of this inappropriate accounting practices, manipulation of cost of goods sold (manipulation of the amount actually spent for variable expenses and fixed cost (processing man hour)) at Iseki-Kumamoto Mfg. Co., Ltd. and Iseki-Matsuyama Mfg. Co., Ltd. was carried out by persons in charge of the job during the process to prepare cost reporting data.

Current system provides job processing system so that a person in charge of the job may modify in order to compensate the portion which cannot be processed automatically by the procurement system as well as process control system. In its operation, an approval system of modification work was not in existence, and the system did not provide a function to save modified data. It is considered that such an insufficient checking function of the system itself was a factor which prevented discovery of these inappropriate accounting practices.

7. Results of Investigation by External Investigation Committee

The External Investigation Committee not only examined report of the Internal Investigation Committee, but also conducted close inspection of relevant materials and hearings of parties concerned in connection with involvement of departments of ISEKI & CO., LTD. Head Office. Results of the investigation by the committee is as follows.

(1) Validity of procedure and results of the investigation by the Internal Investigation Committee

External Investigation Committee verified contents of investigation (Identification of motives, business sites subjected to investigation, fiscal years subjected to investigation, method of investigation etc.), and studied if the entire investigation was carried out rationally. The committee also evaluated the validity of results of an investigation by Internal Investigation Committee based on these studies as well as an investigation carried out by External Investigation Committee.

As a result, either investigation procedure or investigation method can be regarded as valid. In addition, External Investigation Committee verified results of an investigation of Internal Investigation Committee regarding fiscal years in which inappropriate accounting practices were carried out and the amount involved based on materials provided by Internal Investigation Committee, and judged results of the investigation are appropriate.

(2) Involvement of ISEKI & CO., LTD.

For the following reasons, It cannot be recognized that ISEKI & CO., LTD. (hereinafter called "ISEKI.") was involved in these inappropriate accounting practices.

1) Hearings from parties concerned in 3 manufacturing subsidiaries

We failed to obtain any statement in the hearings with president, general manager of administration, general manager of control in 3 manufacturing companies that they received either instruction or suggestion from departments of ISEKI including Development & Production Division.

2) Hearings from parties concerned in Development & Production Division

In the results of hearings from parties concerned in Development & Production Division, there was no situation detected which made us suspect existence of instruction or suggestion of inappropriate accounting practices.

3) Written communication and electronic mail

Among existing written documents and electronic mails regarding contact between Administrative Department and manufacturing subsidiaries, there was no material detected which made us suspect the existence of instruction or suggestion of inappropriate accounting practices.

4) Periods of measures to improve profits

The timing when the measures required to improve profits is around December every year, and it may be difficult for manufacturing division to prepare additional measures to improve in such a short period of time. However, in this respect, there was a notion at the Development & Production Division that there should be room for reduction of costs by increasing production or even when subsidiaries insist impossibility, they tend to have spare measures as a trump. In this context, there is not necessarily any reason that they believed the subsidiaries had no other way of profit improvement but to appeal to inappropriate accounting practices.

5) Monitoring by each institution regarding compliance and auditing.

In either auditing by ISEKI's Operation Supervising Department, monthly report on increased work in process at Executive Management System, reporting at the Business Auditing Committee (Inquiry and decision making organization regarding compliance), auditing by corporate auditors of manufacturing subsidiaries or auditing by certified public accountants, showed no indication or reported any facts which suggest inappropriate accounting practices of this issue.

6) Understanding of other departments in ISEKI headquarters

Deputy head of Development & Production Division was not concerned with specific items or figures of the profit improvement, and he had an understanding that profit improvement is possible at each subsidiary based on his own experience. Head of the Division has thorough knowledge of business practice in research and development area, but in terms of production, deputy head is virtually the top, and it is inconceivable that he either gave instruction or suggestion in regard to inappropriate practice of this issue. And there is no situation which makes us believe that he was aware of the dishonest behavior.

Corporate Planning Department studied total amount of profit improvement regarding Development & Production Division, and in turn, they received reporting on the aggregate improved amount, but it was observed that they had no knowledge about the specific measures.

As mentioned, no fact has been recognized that Head and Deputy Head of Development & Production Division were aware of existence of the dishonest behavior, and Corporate Planning Department knew nothing about a specific method of profit improvement. In addition, so far as report of Internal

Investigation Committee and investigation described in aforementioned 7.(1) are concerned, there is no situation where inappropriate accounting practices have been detected with respect to sales subsidiaries.

Considering the above situation all together, it cannot be assumed that ISEKI's management or department like the Corporate Planning Department had given instruction or suggested the use of inappropriate accounting practices, or they instructed measures to be taken to increase profits with an understanding that such an manipulation of accounting is inevitable at each subsidiary.

(3) Causes for inappropriate accounting practices and measures to prevent its recurrence

1) Peculiarity of this issue and fundamental point of view

In regard to these inappropriate accounting practices, several peculiar matters are pointed out.

In the first place, most of the personnel directly involved with cost control like president, general managers and staff in charge were either involved in these inappropriate accounting practices, or aware of its outline. In a way, inappropriate accounting practices were carried out by each subsidiary as a whole company. As a result, mutual checking did not work at all in each manufacturing subsidiary, and there was little possibility that this issue should have revealed itself from the side of subsidiaries.

In the second place, Administrative Department which is in charge of business practice of manufacturing subsidiaries, has authority for administration and guidance of manufacturing subsidiaries as well as of cost control, and they receive reports on actual performance of profit and assets/liabilities on a monthly basis and made visits to manufacturing companies for control and guidance on regular basis.

Despite all, they failed to discover inappropriate accounting practices, and therefore, checking by parent company ISEKI did not work effectively to manufacturing subsidiaries.

The level of internal control system of ISEKI has been prepared in line with standard levels of major public companies, but there is room for improvement in its operation.

2) Evaluation of report of Internal Investigation Committee

Analysis of causes and proposal of measures to prevent recurrence of the events outlined in the report of Internal Investigation Committee are appropriate and effective with understanding of peculiarities of this issue, and External Investment Committee basically agrees with the opinions expressed in the above report.

3) Supplementary opinions of External Investigation Committee

External Investigation Committee understands that the major reason which led to inappropriate accounting practices is that the request for profit improvement emitted from the Corporate Planning Department was conveyed to manufacturing subsidiaries by the Administrative Department in charge of such subsidiaries as if it is a compulsory target to attain, without prior practical study of content of the improvements, which generated enormous pressure for manufacturing subsidiaries. Neither by investigation of the Internal Investigation Committee nor investigation of the External Investigation Committee, is there any fact confirming that the staff in charge at the Administrative Department were aware of the existence of inappropriate accounting practices and it is fair to think they did not, but it could also mean that the role of the Administrative Department was limited to instruct accomplishment of profit target to manufacturing subsidiaries unilaterally. If it is the case, it cannot be recognized by any means that the Administrative Department was carrying out its duties properly as the department in charge of manufacturing subsidiaries, and its responsibility in administration and supervising is grave. Also, it cannot be denied that Development & Production Division supervising Administrative Department has similar responsibility of control and supervising.

Added to the above, ISEKI's management has to regret sincerely the fact that when multiple subsidiaries were cornered to an extent to commit inappropriate accounting practices, none of them appealed this fact to ISEKI's management or divisions under direct control of the President.

In this issue, it is not so much a problem to have imposed a strict numerical target, but the real issue was the lack of support and follow up by the parent company (specifically, the Administrative Department in charge of business). There was the problem on the resultant concentration of burden on those who were situated further at the end of the line of orders made them feel that they had been imposed of impossible subject disregarding the reality.

The External Investigation Committee considers it essential for the management of ISEKI to prepare a more communicative environment between divisions, departments and companies in the group, in a way, to consolidate a more open organization as a long term objective. This is not only to prevent an occurrence of dishonest behavior or scandals but also to realize a more efficient way of management.

(4) Our understanding of the report of investigation by the External Investigation Committee

We fully accept results of the investigation by the External Investigation Committee and recognize responsibility of ISEKI's management with deep regret.

All directors of ISEKI fully understand the managerial responsibility, henceforth, while we will implement measures for future improvement as explained later in 9. "Measures for future improvement" consistently, we will make utmost efforts in establishing an open organization with enhanced communicability among all departments of the group, departments of ISEKI as well as group companies.

8. Punishment of Participants, and Clarification of the Responsibility of the Management of the Company

In view of the inappropriate accounting practices at our consolidated manufacturing subsidiaries, we will execute following internal punishment based on the advice of the External Investigation Committee in order to clarify managerial responsibility to have amended settlements pertaining to past fiscal years. We sincerely pledge not to repeat similar dishonest behavior with a determination to regain lost confidence by steady implementation of measures for improvement.

(1) Punishment of Participants

In regard to this issue, following advice from the External Investigation Committee, we have decided to give strict punishment at our Company's Penalty Committee and the Board of Directors' Meeting to those 6 main participants (excluding 2 retired) and 3 who had been informed of the outline of this issue, for contradicting the Company's compliance regulations as well as for causing economic losses to the Company.

The punishments given to our Company's directors amongst those primarily involved in this issue are as follows:

- Corporate Executive Officer, Yuzo Aoyama(former President of Iseki-Matsuyama

Mfg. Co., Ltd.)

March 31 Resigned as Corporate Executive Officer and became an Advisor

May 18 Resigned as Advisor

(Note) The Corporate Executive Officer is commissioned to deal with business matters on each subsidiary level and execute business with swift and appropriate decision making. Furthermore, the Corporate Executive Officer is not involved in the management of ISEKI.

(2) Responsibilities of the management and control

The report of the External Investigation Committee points out that “ If it is the case, then it may not be recognized by any means that the Administrative Department was carrying out its duties properly as the department in charge of manufacturing subsidiaries, therefore its responsibility is grave” (As stated above 7.(3)3)

As a result, in order to clarify the management and control responsibilities, following the advice given by the External Investigation Committee, we have determined the following strict punishments:

1. Resignation of Directors

— Representative Director and Executive Managing Director: Katsumi Imanishi
(former Head of Development & Production Division)

May 24 Resigned as Representative Director

June Shall resign as the Executive Managing Director at the General Stockholders' Meeting

— Director: Ryoichi Murakami
(former Deputy Head of Development & Production Division)

June Resigned as Director at the General Stockholders' Meeting

2. We have also decided to give strict punishment to persons responsible at Administrative Department of Development & Production Division

(3) Partial reimbursement of the monthly remuneration of directors, auditors and corporate executive officers

The management, social, and ethical responsibilities regarding this issue have been agreed by all directors and auditors at the Board of Directors' Meeting and the Auditors' Meeting. The voluntary partial reimbursement of the monthly remuneration was implemented starting from April and is as follows:

Position	Amount of reimbursement	Period
Representative Director & President	30%	one year
Representative Director & Executive Managing Director	25%	same as above
Managing Director	20%	same as above
Director	15%	same as above
Auditor	15%	same as above
Executive Managing Director Senior Corporate Executive Officer	20%	same as above
Corporate Executive Officer	15%	same as above

9. Measures for Future Improvement

We sincerely regret the fact that our consolidated subsidiaries conducted such inappropriate accounting practices and that we failed to discover existence of this issue for an extended period of time. We are determined to reform the consciousness of the directors and employees by steady compliance education as well as the execution of each and every measure for improvement in order to prevent any recurrence of a similar situation.

Measures for future improvement are explained below. Please be noted that these measures for this issue are the ones at the present day, and during the course of actual implementation, there is the possibility that necessary changes or new items for improvement, and we assure that we will consistently implement measures for improvement whatever they are.

(1) Activation of communication between Development and Production Division and manufacturing subsidiaries

From now on, during the budgeting process and its modification related to manufacturing subsidiaries, both manufacturing subsidiaries and Development & Production Division of the Company will have sufficient discussions on the analysis of internal as well as the external environment in order to compile a rational and mutually acceptable budgeting.

The Development & Production Division will make efforts to give practical guidance regarding individual items for improvement to manufacturing subsidiaries. With respect to the degree of progress of each item for improvement, we will prepare a system to enable us to inspect of individual items for improvement without exclusively relying on the report coming from subsidiaries.

Please be noted that by the Personnel Announcement dated March 23, 2007, we have changed the president and business line staff of the 3 manufacturing subsidiaries, and furthermore, by the Personnel Announcement dated April 11, 2007, we have changed the Head and Deputy Head of Development & Production Division. We have posted two Deputy Heads under a Head of Development & Production Division, in charge of development related divisions and manufacturing related divisions, respectively. By this, we have constructed a multi-layered management and control structure and we will facilitate communication between the manufacturing subsidiaries and our Development & Production Division.

(2) The establishment of more communicative corporate culture

As for the establishment of the communicative corporate culture, we have introduced an internal reporting system called the “Ethical Hotline” in April 2006. However, based on the process of the detection of these inappropriate accounting practices, we are going to ensure all members of the group are thoroughly re-informed of the idea. In practice, we will reintroduce the contents of the internal reporting system to our group booklet and let every member fully aware that the reporting system is indispensable for the construction of a better corporate culture. We will also prepare a poster and post it to each office which states clearly the outline and the contact of the “Ethical Hotline”. With an understanding that it is essential to make well known the “Ethical Hotline” not only to the managers but also to every employee, we will make list of examples of practical cases, and we will educate this subject through our group publication.

Furthermore, the report by the External Investigation Committee points out that “ While it is absolutely necessary to promote full awareness of the internal reporting system, it is also important to make daily and consistent efforts to accomplish sufficient communication and sharing of common understanding of problems between the manufacturing site and headquarters, management and internal auditors. We sincerely accept the valuable advice of the committee, and we are determined to realize a more communicative group culture with an understanding and creation of an open organization as an essential issue of management.

We sincerely accept the points reported by the External Investigation Committee and recognizes the construction of an open organization of the company as the important task of the management and will work towards creating a communicative corporate culture within our company group.

(3) The improvement of the consciousness of directors and staff on compliance

With respect to our compliance education, we used to dedicate ourselves to establishment of full awareness of legal compliance to all employees of the group by using an “Ethical action norm check list”, as well as other means. Along with introduction of the internal control auditing system, we will implement the following measures in order to firmly establish importance of “appropriate accounting practices”.

First of all, we will introduce a system, where at the time of the submission of the accounting reports by a consolidated subsidiary, and will present a checklist for the “appropriate accounting procedures”. The president of the consolidated subsidiary shall then reconfirm it before presenting the confirmation sheet to the President of ISEKI.

We will hold a training seminar on compliance, once a year with the participation of an external lecturer on the occasion of the meeting of presidents where managements of our consolidated subsidiaries are assembled all together, and try to improve consciousness of them. We will also have a meeting of officers responsible for control in the group regularly (twice a year), and promote full awareness of the compliance. For individual group employees, we will continue to hold compliance education periodically and will appeal to them importance of legal compliance through group magazines, etc.

(4) Planned Personnel Reallocation of Administrative Division

As for the persons in charge of administrative division of the manufacturing subsidiaries, we will put into effect the planned personnel reallocation and we will continue to recruit those with accounting expertise.

We will continue to reinforce and educate personnel in administrative division including sales subsidiaries, not limiting to manufacturing subsidiaries.

(5) Reinforcement of the Internal Control System of the Group and of the Management System

Faced with the inappropriate accounting procedures at this time, our Operation Supervising Department of ISEKI. has increased its members from four to seven (and an additional member in charge of the systems) in order to carry out auditing of the manufacturing subsidiaries and sales subsidiaries at least once a year and has enhanced the group’s internal auditing ability.

In the case of manufacturing subsidiaries, in order to fulfill the monitoring function, we will set up a “Development & Production Management Section” under the head of our Development & Production Division..

Furthermore, we will review the monitoring system not only of the manufacturing subsidiaries but also of the group as a whole.

First of all, we will place an internal auditor in larger sign of consolidated subsidiaries. For the other consolidated subsidiaries, the person in charge of the management division or the manager will periodically conduct an internal audit. We will construct a system where the result of the auditing will be reported at each company’s directors meeting and a copy shall be submitted directly to our Operation Supervising Department.

Together with the introduction of the internal control auditing system, we will standardize business procedures related to accounting reporting, and will reduce the risks by preparing business description sheets and flowcharts. As a result we will build a system where internal checking will be fully realized.

(6) Reinforcement of the Management, Control, and Checking Functions of the Development and Manufacturing Division

As we are aware that the important factor for the inappropriate accounting practices not to be found for such a long time was due to the fact that there was a problem with the management, control and checking functions of the Development & Production Division, we will carry out the following measures for improvement.

1) Reinforcement of the management, control and checking function of the manufacturing subsidiaries by Development & Production Division.

In the Development & Production Division, where the personnel have been changed, the Administrative Department will provide detailed control and guidance responding to the needs of manufacturing site consistently and make efforts to complete the management system of the consolidated manufacturing subsidiaries.

Furthermore, as a part of the maintenance of the checking system, in the aforementioned “Management Control Section of Development & Production Division”, we will set up an index effective for monitoring, will analyze the figures output from the system and when an abnormal figure is found, we will not only ask the manufacturing subsidiary to solve the problem but also will solve the problem

by sharing the information at the investigation meeting between the Development & Production Division and manufacturing subsidiary.

2) Reinforcement of the follow up system at the term-end inventory

Hereafter, the amendments before the final inventory amount of the manufacturing subsidiary should bear reliable proofs and the approval of the responsible person. The said amended data will be treated as an accounting book and will be kept for 10 years. Furthermore, if the products are not well-controlled, or if the procedures for the inventory have faults, the risk of the occurrence of discrepancies in the inventory increases; therefore we will standardize the control standards of the inventory assets and make use of them strictly.

Also, the Management Control Section of Development & Production Division will observe the manufacturing subsidiary's inventory as well as follow the steps in determining the final inventory figures.

3) Enforcement of the Checking Function by usage of IT

As a control on manual procedures, amendment data will have to go through an admission procedure of the responsible manager (Administrative division manager and Control division manager) using prescribed and fixed forms. Also, amendment data will be output in a list and will be checked by the concerned responsible manager (Administrative division manager and Control division manager), and afterwards, a copy of prescribed and fixed forms stamped by the responsible manager and a copy of the list should be sent to Management Control Section of Development & Production Division, where they will be checked and filed.

Furthermore, during the procedures taken for final account closing it became clear that the data of the cost calculation system is kept for one year, but it has been changed that accounting books such as inventory will be kept for 10 years and other accounting books for 5 years. In the mid-term business plan, through a review of business procedures, we will eliminate faults caused by usage of IT and will enhance the system by program development.

10. Conclusions

We most sincerely apologize to the parties concerned with the market and interested parties having caused a lot of trouble and inconvenience by inappropriate accounting practices which led us to make amendment to settlement

pertaining to past fiscal years.

Hereafter, we will try hard not to repeat similar problems and to regain confidence together with our consolidated subsidiaries. Your generous understanding and support shall be greatly appreciated.

(For Reference)

ORGANIZATION CHART (As of May 1, 2007)



