

June 7, 2007

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Company Code: 6310

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

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**Notice on submission of "Report on Improvement"
to the Tokyo Stock Exchange Co., Ltd.**

We would like to report that as of May 24, 2007, we were required submission of the "Report on Improvement" from the Tokyo Stock Exchange Co., Ltd. and we have submitted the required report today as annexed.

Annex: Report on Improvement

Report on Improvement

June 7, 2007

Mr. Taizo Nishimuro
Representative Director & President
Tokyo Stock Exchange Co., Ltd.

Hiroyuki Nakano
Representative Director & President
ISEKI & CO., LTD.

With respect to partial amendment to summary announcement of consolidated financial results and the securities report in question pertaining to past years, we would like to submit herewith report on improvement which states particulars of development and measures for improvement in accordance with Clause 22, Article 3 of the Timely Disclosure Codes of the Stock Exchange.

[1] Particulars of developments

1. Particulars of developments which required partial amendment to summary announcement of consolidated financial results etc.

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.

Accordingly, 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 Paragraph 2, Clause 2 of Article 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. On May 24, 2007, we announced the contents in "A report on the results of the investigation on inappropriate accounting and our policy corresponding to the issue".

Based on the above results of investigations, we have given strict punishment following advice from the External Investigation Committee to participants as well as two directors of the Development & Production Division and responsible persons at the Development & Production Administrative Department in charge of manufacturing subsidiaries, to clarify their responsibility to control and supervise. Furthermore, in order to clarify management responsibility, all directors and auditors have reimbursed part of their remuneration starting from April, 2007.

2. Contents of inappropriate accounting practices

(1) Outline of Inappropriate Accounting Practices

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

a. 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.

b. 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 progress” 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.

c. 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.

d. 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.

a. 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.

a. 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.

b. 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.

In addition, in the series of investigations, no personal embezzlement of money or goods was discovered. We also conduct an investigation of Iseki-Niigata Mfg. Co., Ltd., and inappropriate accounting practices were not discovered.

(2) Participants in inappropriate accounting practice

From results of the investigation by the External Investigation Committee as well as the Internal Investigation Committee, the number of participants was identified to be 11 persons.

Participants may be classified into 3 categories, namely final decision makers who committed inappropriate accounting practices with autonomy and executers (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. Executers 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.

At Iseki-Kumamoto Mfg. Co., Ltd. the number of participants was 4,

including 2 final decision makers (presidents), 1 executor and 1 who was informed of the outline. At Iseki-Matsuyama Mfg. Co., Ltd. the number of participants was 5, including 2 final decision makers (presidents), 1 executor and 2 who was informed of the outline. At Iseki-Houei Mfg. Co., Ltd. the number of participants was 2, including a final decision maker (president) and 1 executor.

(3) The amount of implemented inappropriate accounting practices

The amounts of implemented inappropriate accounting practices by the three manufacturing subsidiaries are as follows (rounded to the nearest million):

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
<u>Excess appropriation of prepaid expenses:</u>	<u>¥19 million</u>
Total	¥3,850 million

Breakdown by settlement period is given in the following table.

Actual amount manipulated by inappropriate accounting practices for each fiscal year

(Rounded down to millions of yen)

Total of three manufacturing subsidiaries	①Excess appropriation of inventory assets (work in process)	②Excess appropriation of construction in process	③Excess appropriation of stock	④Under appropriation of accounts payable	⑤Excess appropriation of prepaid expenses	Total
2 nd half of FY 2004	796	—	—	—	—	796
FY 2004	796	—	—	—	—	796
1 st half of FY2005	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 FY 2006	34	54	(70)	—	—	17
2 nd half of FY 2006	495	251	40	80	10	878
FY 2006	529	306	(30)	80	10	986
FY2006(Accumulation)	2,944	356	46	80	10	3,439
1 st half of FY 2007	181	—	(6)	226	9	410
FY2007(Accumulation)	3,126	—	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 ¥3.632 billion.

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

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, a December settlement for sales subsidiaries and a March settlement for manufacturing subsidiaries. Consolidated yearly business performance is normally prospected in December before fixing settlement prospect of consolidated 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 in charge of manufacturing subsidiaries at the Development & Production Division gave instruction to 4 manufacturing subsidiaries (Matsuyama, Kumamoto, Niigata and Houei) with the same effect.

During the process, we did not recognize that Development & Production Division gave inappropriate accounting practice instructions to 3 manufacturing subsidiaries (Matsuyama, Kumamoto and Houei). However, 3 out of the 4 manufacturing subsidiaries who had received the instruction ended up making inappropriate accounting practices.

The causes and reasons for not having been able to discover this issue for long period are as follows.

(1) Lack of compliance conscious of participants

According to results of investigation by the Internal Investigation Committee, all participants engaged in manipulation taking things easy that “it can be recovered soon”, in another word “if it recovers, there should be no problem”. 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 financial statements, and that they did not have compliance conscious.

We also understand there was a problem in overall compliance education in view of the fact that 5 presidents of the 3 manufacturing subsidiaries including those who had been retired at the time of discovery of this issue were involved in this issue.

(2) Insufficient administration and guidance of Development & Production Division and Administrative Department

1) Insufficient cost control

As mentioned above, there was instruction to improve profit from the corporate planning department at the time of preparing forecast of business performance, and Administrative Department passed it directly to manufacturing subsidiaries without studying rationality the amount given by the corporate planning department. Also, with respect to the profit improvement plan presented by the manufacturing subsidiaries, the department was only satisfied to see that the final figures were in line with the required level, and they did neither dare to grasp specific details of the profit improvement plan nor checked the rationality. As a result, they only checked figures of the profit improvement plan and neglected to follow up individual item for improvement. As a department to oversee cost control, Administrative Department has a responsibility to monitor trends of target costs and actual costs to the extent of elements which comprise such costs. Obviously, the department was not properly carrying out the obligation.

Division of job duties of Administrative Department which is “overall grasp of cost control” includes monitoring function of target and actual costs, as well as “cost planning” (promotion and grasp of cost control and cost down from planning stage of product development to mass production aiming at profit increase), namely function to attain profit target such as cost down at the time of product development and

ordinary cost down.

For this reason, it is considered that the department inclined to assume it acceptable if only the profit target is accomplished, leading them to neglect monitoring function of costs. In terms of control system, the problem was caused by giving them both functions of profit target and monitoring. As a result, they accepted costs reported by manufacturing subsidiaries as actual value without properly checking reasonableness of each item which composes the cost. We regret that they lacked basic stance as a manufacturing company.

In this respect, the External Investigation Committee points out that, “ 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 a 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.”

Also, included in response to the hearings, there was a comment from a manufacturing subsidiary that ,” We argued about the profit target with the Administrative Department trying to explain the difficulty in attaining the target, but they had no ear to listen”. We understand that it cannot be denied that there was a lack of communication between each of the manufacturing subsidiaries and Administrative Department in the process of pursuing targeted profits at each subsidiary.

2) 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.

3) 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), and such a final inventory was not checked by Development & Production Division.

4) 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.

(3) 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.

(4) 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.

4. Understanding of impact of amendment to summary announcement of consolidated financial results etc. pertaining to past fiscal years to investors and securities market.

We deeply regret that we failed to discover inappropriate accounting practices of our manufacturing subsidiaries, and enormously disclosed settlement of accounts, which ought to have been amended, for an extended period of time, and that to have caused great inconvenience and trouble to our shareholders, investors as well as parties concerned at the securities market, contradicting confidence in the market. ISEKI and our consolidated subsidiaries are determined all together to make utmost efforts to regain confidence of parties concerned with a pledge not to repeat such a situation by implementing strict punishment to those involved directors and staff as well as consistently implementing measures to prevent recurrence.

[2] Measures for Improvement

1. Measures for Future Improvement to prevent recurrence

We sincerely regret that our consolidated manufacturing subsidiaries caused inappropriate accounting practices and we failed to discover the fact for an extended period of time.

We are determined to implement the following measures to prevent reoccurrence and regain lost confidence.

(1) Compliance oriented management

1) The establishment of a more communicative corporate culture

a. Critical mind of management

In the report of the External Investigation Committee, it is pointed out that “ISEKI’s management has to regret sincerely the fact 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", and that "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 opener organization as a long term objective."

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

In order to realize an "open organization", all directors headed by the President will make visits to manufacturing and sales subsidiaries, and take initiatives to establish a thorough understanding based on the actual work place and through direct conversation.

b. Full awareness and enrichment of the "Ethical Hotline"

In April 2006, we introduced an internal reporting system called the "Ethical Hotline", a window for reporting by third-party contracting with a lawyer. 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 "Ethical Hotline" as an indispensable system to create a better corporate culture, by using our group booklet and preparing a poster to post in each office which clearly states the outline and the contact information 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 a list of examples of practical cases, and we will educate employees on this subject through our group publication.

Concerning the "Ethical Hotline", we also requested the lawyer in charge to take care of a window for external reporting for our contracted companies etc. along with the window for internal reporting. We will notify contracted companies etc. about the "Ethical Hotline" at the time of remittance of order sheets etc.

2) The improvement of the consciousness of directors and staff on compliance

a. Establishment of a system to require "management confirmation sheet" from presidents of consolidated subsidiaries.

Along with the introduction of the internal control auditing system and in order to establish a thorough understanding of the importance of “appropriate accounting practices”, we have introduced a system, where at the time of the submission of the accounting reports by a consolidated subsidiary that we will present a checklist for the “appropriate accounting procedures”, and the president of the consolidated subsidiary shall then reconfirm it before presenting the “management confirmation sheet” to the President of ISEKI. (Implemented from the settlement for the fiscal year ended March 31, 2007)

b. Continuous implementation of training seminars

We created an internal team across the organization under a director responsible for compliance as of June 1, 2007. This team is the driving force to realize a thorough understanding of compliance consciousness among all directors and employees.

- Compliance seminar

We will hold a training seminar on compliance for managers of the entire group in June, this year with the participation of an external lecturer, including many practical case studies such as these inappropriate accounting practices which can lead to serious violation of laws and regulations. We will continue to hold similar training and seminar twice a year.

Also, we will hold a compliance seminar with the participation of an external lecturer on the occasion of the “meeting of presidents of the group” where management of the consolidated subsidiaries will all get together along with ISEKI’s directors and department heads. From now on, we will hold similar seminar once a year.

In the current fiscal year, we plan to hold a compliance seminar for directors and employees other than the above directors and employees by the initiatives of aforementioned internal team. From next year on, we will hold compliance seminars deliberately addressed to managers and administrative divisions of our group in order to improve their compliance consciousness.

3) Creation of the “Management Supervisory Committee”

We created the “Management Supervisory Committee” as of June 1, 2007 in order to prevent the occurrence of inappropriate accounting practices at ISEKI and all

consolidated subsidiaries of the group as well as to maintain appropriate transactions and accounting practices and a thorough observance of compliance requirements.

The Management Supervisory Committee is held once a month, and it is comprised of the President as chairperson, all directors and heads of auditing department and internal control department (in total, 12 persons). Corporate auditors (4 persons) will also attend as observers.

This committee will follow up on the degree of the progress of measures to prevent recurrence as described in this report on improvement based on reports from each department in charge. And it will also deliberate issues of compliance related to the overall business of the group to prepare necessary measures.

(2) Improvement of organizational system and work process related to the Development & Production Division

1) Reinforcement of monitoring function of manufacturing subsidiaries

As of June 1, 2007, we created the "Management control section" in charge of monitoring manufacturing subsidiaries. The department started with 4 members including the department head. Among the functions assumed by Administrative Department in Development & Production Division were "overall review of cost control" and "cost planning". Part of the "overall review of cost control" will be separated and placed under control of the "Management control section". Since the "Management control section" is free from profit responsibility, a renewed system specializing in monitoring function of costs will be realized. For instance, in the case of preparation of a profit plan, the "Management control section" examines rationality of the cost of goods manufactured presented by each manufacturing subsidiary as the base for preparing a profit plan in view of certain criteria, and also check the progress of the costs at the various stages of implementing the plan. Thus, we believe that the control function of manufacturing subsidiaries will be exercised. Concurrently, by checking rationality of the production costs, function to check Development & Production Division responsible for profit can be attained.

Specific roles are as follows.

(Specific roles)

- a. Supervisory function of the costs of production is transferred to the Management control section from Administrative Department in Development**

& Production Division.

Regarding cost control operation of Administrative Department in Development & Production Division, its functions to check the progress of budget and actual results of costs for each product, to maintain and guide the cost control system will be transferred to the Management Control Section.

Also, we will establish a system which provides a standard for estimating costs by model (budgeted costs by model) in order to facilitate preparation of budget acceptable by manufacturing subsidiaries as well as the discovery of irregular values at the time of reviewing actual results (September 2007 as a target)

b. Creation of indices effective for monitoring and checking

We will create indices effective for monitoring and analyzing values output from the systems. In case, any irregular value should be detected, the information will be shared not merely leaving the solution to manufacturing subsidiaries alone, but will be discussed among Administrative Department in Development & Production Division of ISEKI, in order to solve the problem. (June 2007 as a target)

c. Review and follow up by manufacturing subsidiaries until the term-end inventory will be finalized

Hereafter, the amendments before the final inventory amount of the manufacturing subsidiary should bear reliable proofs and the approval of the responsible person at each subsidiary. 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, we will standardize the control standards of the inventory assets at Management Control Section and make inventory procedure of manufacturing subsidiaries more strict.

d. Improvement of system in order to reinforce control by 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 three-year 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.

f. Follow up of compliance at the Development & Production Division and manufacturing subsidiaries

Management Control Section will report on the results of the monitoring of manufacturing subsidiaries every month to Management Supervisory Committee.

2) Reinforcement of control and guidance of manufacturing subsidiaries by the Development & Production Division and activation of communication.

As the overall window of the Development & Production Division, Administrative Department in Development & Production Division is in charge of the business of manufacturing subsidiaries, and the department will provide detailed control and guidance which reflect the reality of the sites and support steadily, thus trying to reinforce the group control system as well as to activate communication with manufacturing subsidiaries.

(3) Reinforcement of the monitoring system

1) Reinforcement of Operation Supervising Department

a. Increased staff: The number of staff has been increased from 4 to 7 (among which, a staff is in charge of IT)

b. Frequency of audit:

Targeted frequency of audit was once a year for sales subsidiaries and once in two years for manufacturing subsidiaries. From now on, a minimum one audit per

year will be conducted for all consolidated subsidiaries. Also, in case any serious problem should be discovered in such auditing, a follow up audit of the improved situation will be conducted.

c. Audit of manufacturing subsidiaries

From now on, we will conduct accounting settlement audit twice a year in addition to ordinary auditing.

In accounting settlement auditing, we will conduct:

- Extraction and examination of reason for discrepancies between inventory sheet B and inventory sheet C.
- Extraction and on-the-spot inventory check of dead stock and special parts codes.
- Reconciliation of inventory list of construction in progress and accounting records.
- Reconciliation of original ticket of stock and accounting records.

Operation Supervising Department will report results of the monthly audit to the “Management Supervisory Committee”.

2) Reinforcement of ordinary monitoring function of consolidated subsidiaries other than manufacturing subsidiaries.

Inappropriate accounting practices of this time belonged to manufacturing subsidiaries, but we will implement the following measures in order to strengthen monitoring function as an entire group.

- a. With respect to internal auditing system of consolidated sales subsidiaries and affiliated sales related companies (Hereafter, “ sales subsidiaries etc.”) which have many sales basis, we will let them handle internal auditing themselves by having an internal auditing function at each company. For relatively large sales subsidiaries, we allocate officers in charge of internal auditing. For other sales subsidiaries etc., persons in charge of the administrative department or managers will conduct regular internal auditing.

In conducting internal auditing, we have established common auditing standards (already decided in May, 2007) and audit in accordance with such standards. We have established a system to report the result of auditing to the board of directors of each company and to have its copy presented to “Management Control Section”.

b. “Management Control Section” was created in the Business Division

Also with respect to Business Division, “Management Control Section” was created under control of Head of Business Division as of June 1, 2007 in order to strengthen monitoring function of sales subsidiaries and others.

The department will be engaged in follow up of the situation of implementation of the internal auditing as stated in 2. above, preparation of common inventory standard for sales subsidiaries and others, grasp of monthly trend of actual results of receivables and inventory assets and follow up of the situation of final determination of the end of the period inventory and follow up of compliance of sales subsidiaries and others.

“Management Control Section” reports above situation of monitoring to the Management Supervisory Committee every month.

(As for the overall organizational structure, please refer to annex 1. “Previous and New Organization Chart”, and for the organization structure concerning monitoring, please refer to annex.2 “Organization System Concerning Monitoring”.)

3) Standardization of operation

To cope with the introduction of an internal control auditing system, we will promote standardization of operations concerning financial reporting and create a system in which internal control will fully function by extracting potential risks through preparation of job statements and flow charts (March 2008 as a target).

(4) Planned personnel reallocation of administrative division

Since one of the factors why it took so long before this issue was discovered was the fact that the 3 executors of manipulation were responsible for cost control for a long period without transfer, we will implement a planned rotation of persons in charge at administrative division among manufacturing subsidiaries, between manufacturing subsidiaries and the Development & Production Division, and also we will continuously employ personnel with expertise of accounting.

2. Schedule of implementation of measures for improvement

Regarding the above measures for improvement, we will implement them consistently in accordance with Annex.3 “ Implementation Schedule of Measures for Improvement”. The Management Supervisory Committee will confirm the situation of

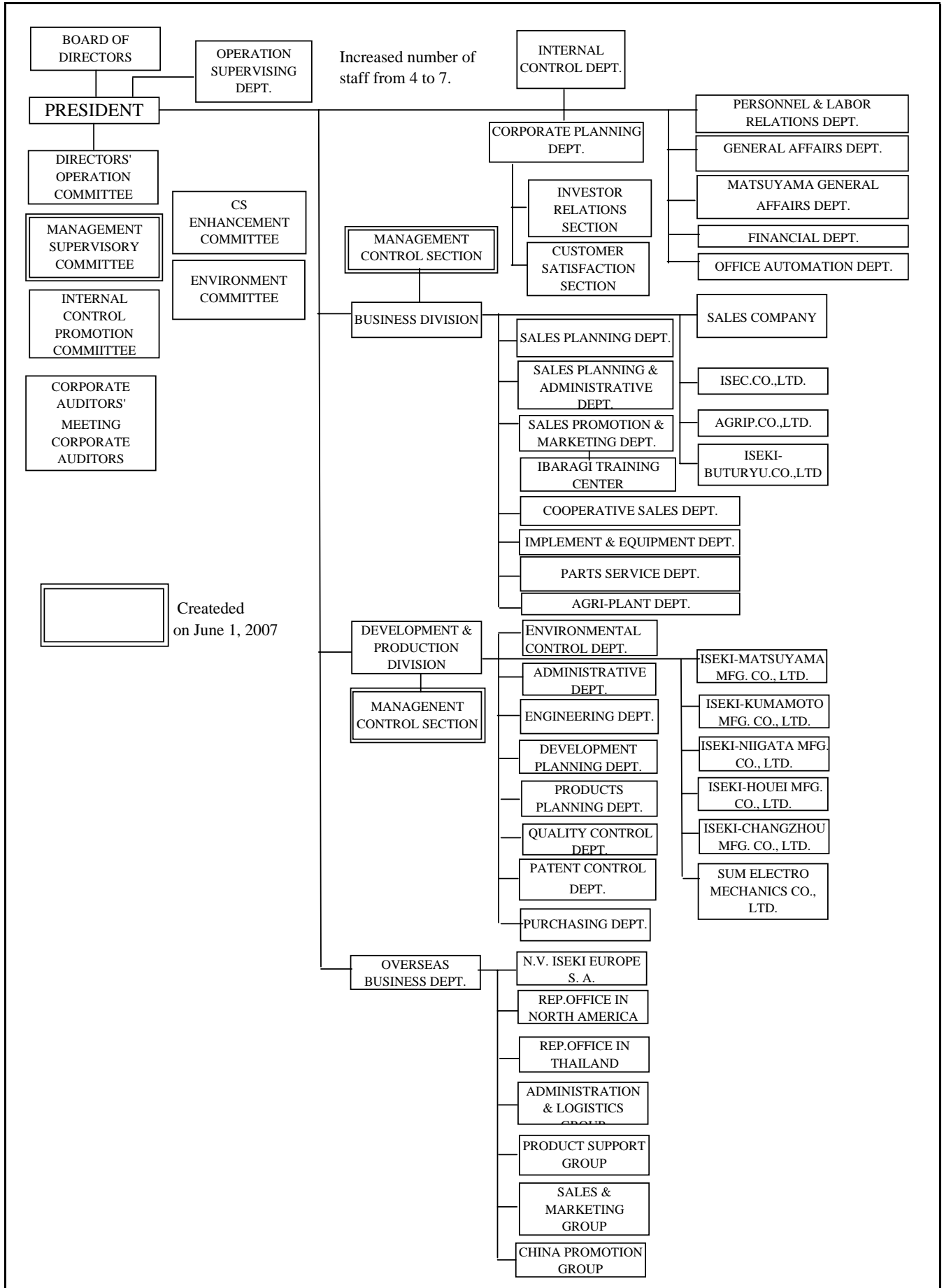
progress every month and follow up with their implementation without fail.

3. Conclusions

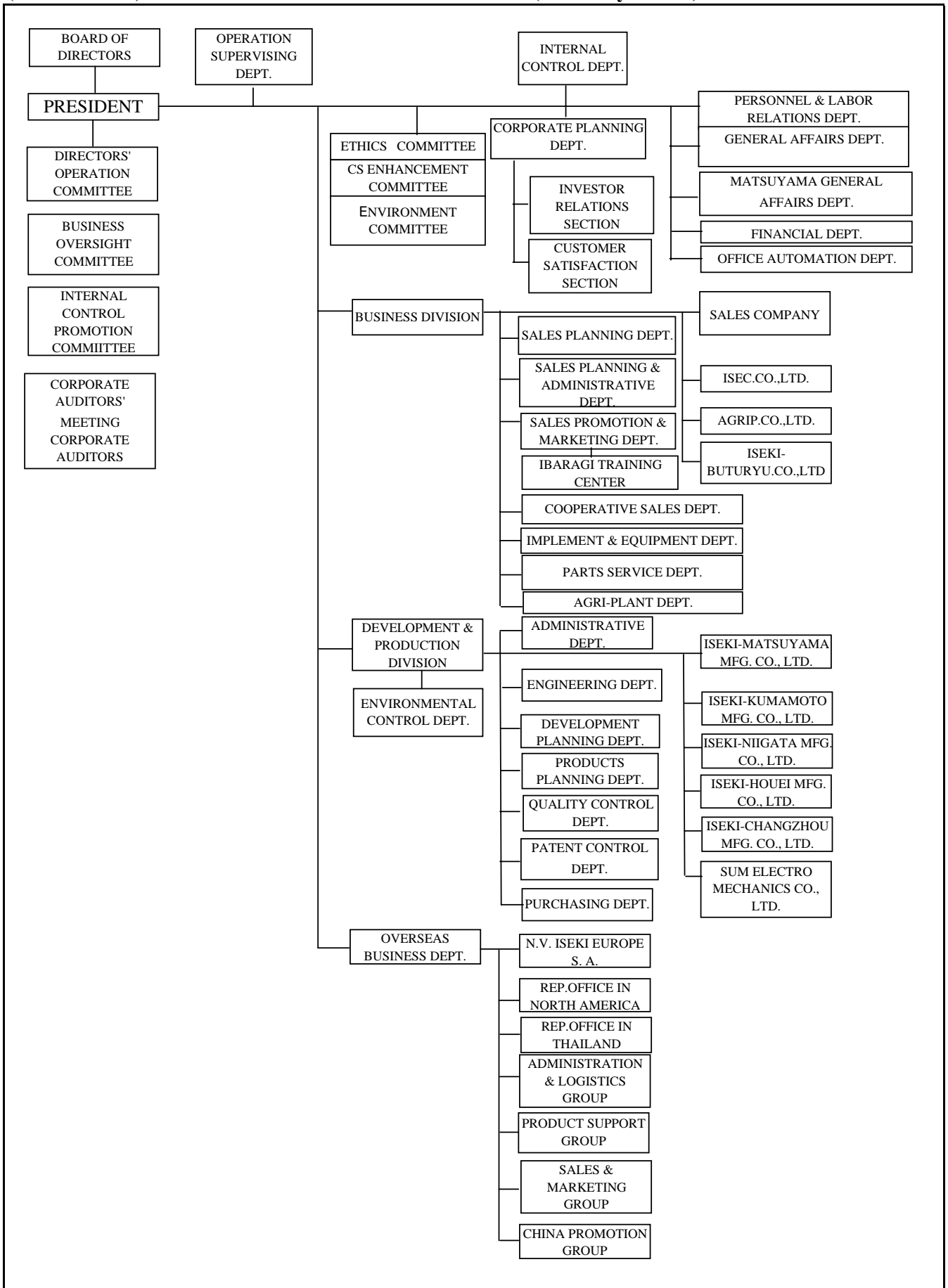
We most sincerely apologize to the parties concerned with the market and interested parties having caused a lot of trouble and inconvenience by inappropriate accounting practices which led us to make amendment to settlement pertaining to past fiscal years.

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.

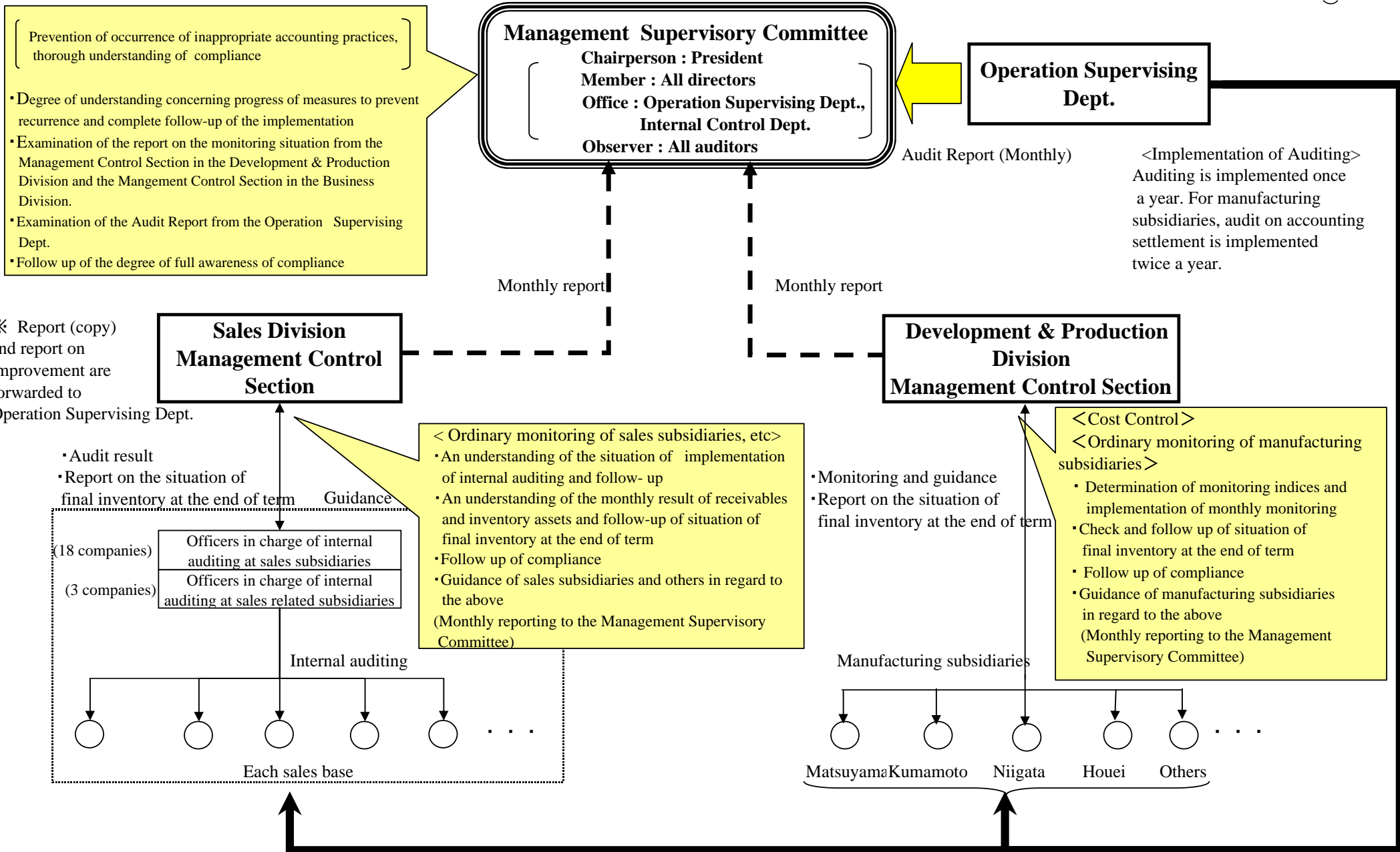
(For Reference) NEW ORGANIZATION CHART (As of June 1, 2007)



(For Reference) PREVIOUS ORGANIZATION CHART (As of May 1, 2007)



【 Organizational System Concerning Monitoring 】



Implementation Schedule of Measures for Improvement

● : Implemented ○ : To be implemented : Implementation of measures for Improvement
 : Continuous implementation

Item	Person/Dept. in Charge	2007				2008			
		~May	Jun.	Jul.~Sep.	Oct.~Dec.	Jan.~Mar.	Apr.~Jun.	Jul.~Sep.	Oct.~Dec.
4) Check and follow up of the term-end inventory situation Standardization of the inventory assets control standard	Same as above				⇨		⇨	⇨	
	Same as above/ Financial Dept.								
5) System improvement by using IT	Same as above/ Office Automation Dept.								
(2) Improvement of control and guidance of manufacturing subsidiaries	Development & Production Division								
3. Reinforcement of monitoring function									
(1) Reinforcement of Operation Supervising Dept.	Operation Supervising Dept.			●As of June 1, 2007, staff increased from 4 to 7 (including a staff in charge of IT)					
				 Auditing of settlement of manufacturing subsidiaries					
(2) Reinforcement of the monitoring function of consolidated subsidiaries other than manufacturing subsidiaries									
1) Reinforcement of the internal auditing system of sales subsidiaries, etc.	Business Division								
	Management Control Section			●Preparation of Internal Auditing Standard					
2) Creation of a "Management Control Section" in the Business Division	Same as above			●June 1, 2007 creation of the section					
(3) Standardization of business (job statement/flow chart)	Internal Control Dept.								
4. Planned personnel rotation									
▪ Planned rotation of personnel in charge of the administrative department of manufacturing subsidiaries	Personnel & Labor Relation Dept.								