

December 20, 2007

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

We would like to report that as of today, with respect to the “Report on Improvement” submitted on June 7, 2007, we have submitted “Report on Progress of Improvement” which describes the state of implementation and administration of measures for improvement in accordance with provisions of Article 503, Paragraph 1 of the Securities Listing Regulation as annexed.

Annex: Report on Progress of Improvement.

Report on Progress of Improvement

December 20, 2007

Mr. Atsushi Saito
Representative Director & President
Tokyo Stock Exchange Co., Ltd.

Seiichiro Gamo
Representative Director & President
ISEKI & CO., LTD.

With respect to the Report on Improvement submitted on June 7, 2007, we would like to submit herewith the report on progress of improvement which describes the state of implementation and administration of measures for improvement in accordance with provisions of Article 503, Paragraph 1 of the Securities Listing Regulation.

[1] Particulars of developments to have submitted report on improvement

1. Particulars of developments which required amendment

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.(Hereafter “Kumamoto Mfg.”), that the settlement prospect would be worsened significantly. As a result of a close examination of the cause conducted by the division, it was identified that inappropriate accounting practices such as overstatement of work in process had been taking place.

We also 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.(Hereafter “Matsuyama Mfg.”) and also at Iseki-Houei Mfg., Co., Ltd.(Hereafter “Houei Mfg.”).

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 the Timely Disclosure Codes of the Stock Exchange, we set up an Internal Investigation Committee headed by our President as chairperson. 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 entrusted to

them an investigation of this issue.

As a result of an investigation by the External Investigation Committee and Internal Investigation Committee, the overall picture and the magnitude of the amount to the financial statements of the past fiscal years were identified. On May 24, 2007, we announced the contents in “A report on results of the investigation on inappropriate accounting and our policy corresponding to the issue”.

2. Outline of inappropriate accounting practices

An outline of inappropriate accounting practices conducted at Kumamoto Mfg., Matsuyama Mfg. and Houei Mfg., is as follows.

a. Excess appropriation of work in process

It was practiced at Matsuyama Mfg., Kumamoto Mfg., and Houei Mfg..

These manufacturing subsidiaries manipulated profits by reducing the manufacturing cost (cost of goods sold), and increasing work in process on the books, through cost accounting processing from January to March at Matsuyama Mfg., and March 2004 at Kumamoto Mfg., and Houei Mfg.

The above manufacturing subsidiaries continued similar practices in their interim settlements ended in September and end of year settlements ended in March which followed.

b. Excess appropriation of stock and construction in progress

It was practiced at Kumamoto Mfg.:

- 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 manipulated profits by transferring fixed costs (labor costs, etc.) among “costs of goods sold” to “construction in process”. 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”, deducting the corresponding amount from the variable costs of goods sold.

c. Under appropriation of accounts payable

It was practiced at Kumamoto Mfg., and Houei Mfg.

At Kumamoto Mfg.:

- The subject company manipulated profit in March, and between June and September 2006 through reducing the amount billed for purchasing. This manipulation was done in such a way 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.

At Houei Mfg.:

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

d. Excess appropriation of prepaid expenses

It was practiced at Kumamoto Mfg.:

- 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.

As a result of above inappropriate accounting practices, both our consolidated and non-consolidated financial performances from the fiscal year ended March 2007 to the interim period of the fiscal year ended March 2007 have been affected. We announced the fact in “Partial amendment of summary announcement of

financial results (consolidated, non-consolidated) pertaining to past years” on May 24, 2007, and submitted the amended issues of the Securities Report and Semi Annual Report to the Kanto Financial Bureau.

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

Our internal investigation concluded that the causes and reasons of the inappropriate accounting practices as well as the reasons for not having been able to discover them for long period are as follows:

- (1) Lack of compliance consciousness of participants
- (2) Insufficient administration for manufacturing subsidiaries by Development & Production Division and Administrative Department.
Specifically we consider the main problem areas were: 1) Lack of sufficient control of manufacturing cost, 2) Insufficient control / guidance for manufacturing subsidiaries by the Development & Production Division as well as its weak checking function of those subsidiaries, 3) Insufficient identification of the cause of end-period discrepancies of inventory and defects of system to determine final inventory, and 4) Insufficient function of checking by IT.
- (3) Unsatisfactory Internal auditing system to manufacturing subsidiaries.
- (4) Fixed Personnel management in highly professional area such as persons in charge of finance for an extended period of time.

[2] Measures for Improvement

Contents of measures for future improvement stated in Report on Improvement in preventing recurrence of causes and reasons for not having been able to discover as stated in the above [1] 3 are as follows:

(1) Compliance oriented management

1) The establishment of a more communicative corporate culture

a. Open organization

We sincerely accept the problem pointed out in the report of the External Investigation Committee, “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, not only for preventing misconduct or scandal, but also for realizing efficient management”, and we will aim at realizing an

“open organization”. For the time being, 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”

We will re-ensure all members of the group are thoroughly about of the “Ethical Hotline”(internal reporting system) introduced in April 2006.

Along with the above efforts, we will also launch measures with an aim to enrich the function of the “Ethical Hotline” itself such as the creation of a window for external reporting for our contracted companies 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.

We prepared a check list regarding uniformed accounting practices of the Group and delivered it to consolidated subsidiaries in order to ensure appropriate accounting practices at the subsidiaries.

The said check list shall be reconfirmed by the president of each consolidated subsidiary and submitted to the President of ISEKI attached to the “management confirmation sheet”. (Implemented from the settlement for the fiscal year ended March 31, 2007).

b. 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. We will continue to hold similar training seminars twice a year.

Also, we will hold a compliance training seminar with the participation of an external lecturer on the occasion of the “meeting of presidents of the group” in June. From now on, we will hold similar training seminars once a year.

In the current fiscal year, we plan to hold a compliance training seminar for directors and employees other than the above directors and employees on the initiative

of the “compliance team”. From next year on, we will hold compliance seminars in a planned manner addressed to managers and administrative divisions of our group.

3) Creation of the “Management Supervisory Committee”

We created the “Management Supervisory Committee” as of June 1, 2007. The committee shall be held once a month in order to prevent the occurrence of inappropriate accounting practices as well as to maintain appropriate transactions and accounting practices and a thorough observance of compliance requirements.

The committee will follow up on the degree of the progress of measures to prevent recurrence as described in the 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.

The committee is comprised of the President as chairperson, all directors and heads of auditing department and internal control department. Corporate auditors (4 persons) will also attend as observers.

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

1) Creation of “Management Control Section of Development & Production Division”

As of June 1, 2007, we created the "Management Control Section in Development & Production Division" under the control of the Head of Development & Production Division. Specific roles of the “Management Control Section in Development & Production Division” are as follows.

- a. Supervising function of the costs of production (transferred from Administrative Department in Development & Production Division).
- b. Monitoring trends of manufacturing cost etc. (creation of indices and checking)
- c. Check and follow up until determination of final inventory at manufacturing subsidiaries.
- d. Improvement of system in order to reinforce control by IT.
- e. Follow up of compliance at the Development & Production Division and manufacturing subsidiaries.

Results of the above monitoring will be reported to “Management

Supervisory Committee” every month.

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

Administrative Department in Development & Production Division will try 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

By increasing the number of staff from 4 to 7 (among which, one staff is in charge of IT), this will enable the Operation Supervising Department to implement ordinary auditing a minimum of once a year from now on, while previously the frequency of audits used to be more or less once a year for sales subsidiaries and once in two years for manufacturing subsidiaries.

In furtherance, we will conduct an accounting settlement audit for manufacturing subsidiaries twice a year. The Operating Supervising Department will report results of the audit to the “Management Supervisory Committee” every month.

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

Although consolidated sales subsidiaries and affiliated sales related companies (Hereafter, “sales subsidiaries, etc.”) have no direct bearing with the inappropriate accounting practices of this time, but we will implement the following measures in order to strengthen the monitoring function as an entire group.

a. Preparation of an internal auditing system for consolidated sales subsidiaries.

- For relatively large sales subsidiaries, we will 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).
- We have established a system to report the results of auditing to the board of directors of each company and to have its copy presented to the “Management Control Section of

Business Division”.

b. Creation of “Management Control Section in Business Division”

As of June 1, 2007, the “Management Control Section” was created under control of the Head of Business Division which assumes the monitoring function of sales subsidiaries and others.

The Management Control Section in Business Division will be engaged in follow up of the situation of implementation of the internal auditing, 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.

3) Standardization of operation

To cope with the introduction of an internal control auditing system, we will prepare flow charts of operations concerning financial reporting and job statements, and follow up at our “Internal Control Promotion Committee” to be held on the same day as the aforementioned “Management Supervisory Committee”(March 2008 as a target).

(4) Planned personnel reallocation of administrative division

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.

[3] Implementation and operation of measures for improvement

Regarding the above [2]. “Measures for improvement”, progress of implementation and operation is as follows.

(1) Above [2]. (1) Compliance oriented management

1) The establishment of a more communicative corporate culture

a. Creation of an open organization

We sincerely regret the fact that when manufacturing subsidiaries felt compelled to commit inappropriate accounting practices, none of them revealed this fact to ISEKI's management or divisions under direct control of management. With the recognition that the establishment of a more communicative corporate culture (creation of an open organization) is indispensable, all directors headed by the President have taken initiatives to establish a thorough understanding based on the actual work place and through direct conversation.

Between June 11 and September 5, 2007, the President and 9 directors made shared visits to 479 different places throughout Japan, offices of sales subsidiaries and principal distributors, etc., having conducted hearings of opinions and requests from local employees. With respect to the 1,458 opinions and requests received, we have already responded including measures for improvement, etc. to each sales subsidiary.

In furtherance, with respect to the Development & Production Division, manufacturing subsidiaries and some affiliated companies, we organized gatherings for familiar talks with the President and Vice President for managers of such companies in between October 20 and December 2, to conduct question and answer sessions. It has been confirmed that problems will be solved with concerted efforts by the Development & Production Division and manufacturing subsidiaries, specifying points to be improved.

We will continue to make regular visits to sales and manufacturing subsidiaries, trying to firmly establish communicative corporate culture.

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

As of April 1, 2006, we introduced an internal reporting system called the "Ethical Hotline" addressed to all employees of ISEKI group. However, with a regret that this internal reporting system might not have functioned well in view of the process of discovery of the inappropriate accounting practices, we are engaged in a campaign to make it thoroughly understood.

In May 2007, we distributed to presidents of our consolidated subsidiaries, a document to facilitate a thorough understanding of the "group internal reporting

system” by all employees and had a poster of the group internal reporting system the “Ethical Hotline” to be posted at all work places. We also put an article to introduce the “Ethical Hotline” in the June edition of our group magazine (titled “Haguruma”).

Furthermore, with respect to standards of behavior posted in the pamphlet “Iseki Group Ethical Behavior Standards” distributed to all employees, we issued a “Point-by-point commentary on ethical behavior” in June having extracted each item described in the group magazine “Haguruma”, and distributed it to all group companies as well as all departments in our company. We also distributed a revised edition of the pamphlet “Iseki group ethical behavior standards” in November comprising the “Ethical Hotline” to all employees.

In June 2007, we extended the target of the “Ethical Hotline” to our contracted companies, etc., having distributed the “Notice on [Ethical Hotline]” to a total of 258 companies, namely development & production related contractors and facility related companies with paid up capital less than 1 billion yen and purchase amount in excess of 10 million yen.

The number of incidences reported to the “Ethical Hotline” between April 2006 and end of November 2007 were 7 cases, and all of them have been attended properly by the window, Personnel & Labor Relation Department in accordance with the “Operational regulations of the internal reporting system”.

2) The improvement in consciousness of compliance of directors and staff

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

With respect to the “management confirmation system” to realize a thorough understanding of the importance of “appropriate accounting practice”, we have required the submission of a “management confirmation sheet” and “basic job, and accounting processing check list” for appropriate accounting processing, at the time of submission of interim financial statements of the fiscal year ending March 2008 to the President in the name of presidents of consolidated subsidiaries. Each consolidated subsidiary is supposed to confirm its business processing and settlement processing on the occasion of financial settlement, thus preventing any occurrence of inappropriate accounting practices. We made it clear again that final responsibility of the company’s settlement

belongs to the president of the subsidiary.

In the interim settlement for fiscal year ended March 2007, we received management confirmation sheets and check lists from all our consolidated subsidiaries.

From now on, we will continue to strengthen the system associating it with the internal control and auditing system defined by the Financial Products Transaction Law.

b. Continuous implementation of compliance training seminars

With a recognition that the reason behind the inappropriate accounting practices was a lack of consciousness of the risk involved and compliance issues and not understanding that they would lead to serious violation of laws and financial false statements, and with the regret that there was a problem in our overall compliance education, we decided to hold compliance seminars addressed to all employees.

The “compliance team” (Note) organized on June 1, 2007 takes initiative on the implementation of compliance training seminars.

(Implementation of compliance training seminars since June 2007: (As of December 14)

- Seminar at meeting of responsible managers: June 14, November 8 (170 persons)
- Seminar at meeting of group presidents: July 23 (183 persons)
- New directors seminar of sales and affiliated companies: July 23 (35 persons)
- New managers seminar: August 11 (25 persons)
- Senior managers seminar: August 19 (17 persons)
- Development & Production Division and manufacturing subsidiaries seminar: September 28 – November 7 (2,419 persons)
- Sales subsidiaries/sales related companies seminar: September 3 – December 14 (3,432 persons)
- Seminar at each district other than above: September 3 – November 16 (568 persons)

Total 6,849 persons

(Include duplicate attendants of presidents, directors, managers etc. of each company)

The 1st seminars are planned to be completed by February 2008.

(Note) Compliance team

The compliance team was organized across sections, the operation supervisory Department, Personnel & Labor Relations Department, Administrative department, Management Control Section of & Development & Production Division and Management Control Section of Business Division, to engage in the planning of seminar contents related to compliance, implementation of seminars and monitoring of the progress.

Along with training seminars, the team is promoting measures for improvement of compliance consciousness of the entire group such as editing of “case examples of misconduct” (to be issued in December) which refers to the inappropriate accounting practices that occurred and possible misconduct in the future.

3) Creation of the “Management Supervisory Committee”

We created the “Management Supervisory Committee” as of June 1, 2007 in order to prevent the recurrence of inappropriate accounting practices, maintain appropriate transactions and accounting processing as well as to establish thorough observance of compliance.

The committee is comprised of all directors, heads of divisions, deputy heads and executive officers assigned in Tokyo, and all the corporate auditors and external experts (certified public accountants) will also attend as observers and advisors respectively. In addition each, general manager of the Corporate Planning Department , Financial Department, Personnel & Labor Relations Department, Office Automation Department ,General Affairs Department, Administrative Department, Management Control Section of Development & Production Division, Sales planning & Administrative Department, Overseas Business Department and Management Control Section of Business Division, every staff member of administrative department and sales planning & administrative department will attend. The general manager of the Operation Supervisory Department and the general manager of the Internal Control Department are responsible for the office.

The committee will implement the following items, and in case any problem is detected, it has the authority to give direct instruction to the relevant department.

- Monitoring of degree of progress of measures to prevent recurrence and consistent follow up of the implementation.
- Verification of report on monitoring situation from Administrative department of Development & Production Division and Sales Planning & Administrative Department of Business Division.
- Verification of auditing report presented by Operation Supervisory Department.
- Follow-up of thorough implementation of compliance.

Actual holdings of the Management Supervisory Committee and main subjects were as set out below:

[Actual record of the Management Supervisory Committee]

- First: June 21, 2007
- Second: July 27, 2007
- Third: August 31, 2007
- Fourth: September 27, 2007
- Fifth: October 30, 2007
- Sixth: November 30, 2007

(Main subjects)

- Compliance training seminar plan and situation of seminar implementation.
(Responsible: Compliance team)
- Degree of progress of measures for prevention of recurrence related to development and production, and monthly monitoring.
(Responsible: Management Control Section of Development & Production Division)
- Degree of implementation of internal auditing at sales subsidiaries and distributors, and monthly monitoring.
(Responsible: Management Control Section of Business Division)
- Auditing report
(Responsible: Operation Supervising Department)
- Others
Degree of thorough understanding of the “Ethical Hotline”
Degree of correspondence to matters previously pointed out.

With the above subjects, we grasp the degree of progress of measures

for the prevention of recurrence and their surefire follow up.

(Please refer to Annex 1 as to the organizational system concerning monitoring.)

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

1) Reinforcement of monitoring function of manufacturing subsidiaries

One of the reasons for the inappropriate accounting practices in question was authorization of both profit target planning and monitoring functions in the Administrative Department in the Development & Production Division, which was an exclusive window of the manufacturing subsidiaries. With this understanding, we created the “Management control section of Development & Production Division” in the Development & Production Division under the direct control of the Head of the division, which is a specialized section to assume the monitoring function to be free from the responsibility for profit, and conduct monitoring of manufacturing subsidiaries. Results of such monitoring have been reported every month to the “Management Supervisory Committee” as stated in (1) 3) above.

a. Creation of system for cost control and cost estimation by model

We instituted our “guideline on setting budget/cost · work in process” as of October 1, 2007 in order to clarify the procedure for the setting of the annual budget regarding cost/work in process among the budget compiled by manufacturing subsidiaries, namely Matsuyama Mfg., Kumamoto Mfg., Niigata Mfg. and Houei Mfg., and to ensure the reliability of the budget of cost by model (*1), “amount of work in process and number of days of work in process” (*2) and standard value (=budget value) of monitoring. Partial operation has already started at Matsuyama Mfg., and in the cases of Kumamoto Mfg., Niigata Mfg., and Houei Mfg. which require the establishment and improvement of their budget system, completion of work to bring about the establishment and improvement of required systems are aimed to be finished by March 2008.

(*1) Cost by model signifies estimated cost on budgeting calculated based on variable cost and process cost (given by working time of direct plant worker and machine processing time) and mold and jig expenses for each model. However, machine

processing time and mold and jig expenses are only used in Matsuyama Mfg., and Kumamoto Mfg.

(*2) Amount of work in process signifies the aggregate amount of variable cost and process cost belonging to the unfinished product during the manufacturing process of products etc., and mold and jig expenses, and the number of days of work in process shows that the said amount of work is equivalent to how many days' amount of production.

b. Setting of indices effective for monitoring and checking by them

The Management Control Section of Development & Production Division conducts monitoring concerning trends of production cost at manufacturing subsidiaries. Monitoring has been conducted since July 2007(result of June) by setting indices effective for monitoring, centering on items where the inappropriate accounting practices were identified. The main items for monitoring and evaluation criterion are as set out below.

- Cost by model (judged by comparison with budget)
- Amount of work in process and number of days of work in process (judged by comparison with the budget and comparison with the previous month and degree of delay from plan)
- Construction in progress (judged by comparison with the previous month and degree of delay from plan)
- Amount of account payable (judged by comparison with the previous month and amount on hand-written slip)

With respect to the monitoring indices, we send a “report form of monitoring results” addressed to the president of each manufacturing company, and in case there are abnormal figures, we require them to submit a “response paper” explaining the reason and content of correction within a designated period.

As of the end of November 2007, we have completed monitoring up to the October portion. For those cases exceeding the judging criterion, some errors of processing were detected as a result of checking of the reasons based on the said “response sheet”, which have been corrected properly.

c. Review and follow up for manufacturing subsidiaries until the term-end inventory

will be finalized.

Since inappropriate accounting practices of this time were exercised during the adjusting process between on-the-spot inventory checks and the determination of the final amount of inventory, we not only standardized the operating procedure but also reinforced the auditing system in the inventory check of the interim period ended September 2007.

As of September 21, 2007, the Development & Production Division issued the document “Implementation of inventory check” to all manufacturing subsidiaries except for ISEKI-CHANGZHOU MFG. CO., LTD. which will apply the December settlement, in order to make them completely understand that:

- on-the-spot inventory check must be based on the “Basic guideline of on-the-spot inventory check operation”,
- inventory data must be based on the “Guideline to determine inventory assets”

“Basic guideline of on-the-spot inventory check operation” obliges preparation of inventory schedule planning, inventory implementation system and inventory statement of direction. Inventory scheduling plan strictly follow the guidelines on implementation, which includes preparation of inventory check, cessation of move of parts, etc., inventory day, aggregation of identification tags and reporting of cost. The implementation system of inventory check requires clarification of curator and person in charge, organizing of storage location, previous arrangement of personnel to give time to prepare mutual checking system of inventory investigation, and statement of direction of inventory check provides specific procedure such range of implementation of inventory check and investigation method of goods on hand. On the appointed day of inventory check, we uniformed processing to details from method of entry of identification tag to method of processing of deposited items.

In furtherance, regarding the difference between the balance on the book and on-the-spot inventory check, result of investigation of the difference will be submitted to administrative department subject to approval, this being evidenced by the seals of the person in charge, examiner and department head. Those differences in relevant data judged by the administrative department to be in need of adjustment may be done in an appropriate manner upon the approval of the responsible officer.

(Please refer to annex 2 for the flow of operation.)

“Guideline to determine inventory assets” regulates steps of adjustment processing from aggregate list (called list B) of initial stage of on-the-spot inventory check to adjusted final inventory list (called list C), having introduced checking function at each stage of adjustment processing.

(Please refer to annex 3 for the steps of adjustment processing.)

In inventory check of interim period ending September 2007, we reinforced monitoring system along with the organizing of the implementation of such a system. The Operation Supervising Department, Financial Department and Management Control Section of Development & Production Division confirm situation of on-the-spot inventory check with situation of determined inventory, and Management Control Section of Development Production Division verified appropriateness of processing based on the forms “goods on hand check list”, “on-the-spot inventory check list”, “ inventory adjustment check list” and “on-the-spot inventory determination request paper”.

As a result of such monitoring, no issues have arisen which could lead to inappropriate accounting practices. There were some minor deficiencies, but the content will be put together in “pointed matters at inventory auditing and content of response”, and organized to bring about improvement by the next inventory check (inventory check of March 2008 settlement).

d. Improvement of system in order to reinforce control by IT

Since inappropriate accounting practices were exercised during the monthly process of preparing cost report data in the absence of approval of responsible managers, we decided to introduce operation procedure as stated in c. above, and we are also making improvement by using IT control. Specifically, we have improved to be able to output adjusted data of monthly cost report as a list from the system at Matsuyama Mfg. and Kumamoto Mfg. Also, we have improved to be able to output content of adjustment (adjusted data from list B to list C) regarding on-the-spot inventory check adjustment data from all systems at Matsuyama Mfg., Kumamoto Mfg. and Houei Mfg. Furthermore, in regard to data retention period of the cost accounting system, we have

changed the period to 10 years for accounting book like inventory sheet and other ledger sheet to 5 years.

In order to cope with the internal control system, operation flow, job statement and RCM (Risk Control Matrix) are being prepared at each manufacturing subsidiary. If any area of control activity which needs to depend on IT control is detected, we will promote system improvement by developing a program.

e. Follow up of compliance of Development & Production Division and manufacturing subsidiaries

The Management Control Section implements compliance seminars of the Development & Production Division and manufacturing subsidiaries as a member of the “compliance team”.

(As to the accomplishment, please refer to (1) 2)b. Continuous implementation of compliance seminars.

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

In the Development & Production Division, internal control meetings have been held since August 2007 in order to control, guide and activate communication. An internal control meeting is held every month with main items of discussion being issues of implementation such as explanation of matters related to internal control by the Development & Production Division to presidents of manufacturing subsidiaries and persons responsible for internal control, and also an exchange of opinions with manufacturing subsidiaries.

Also, in implementing improvements of operation of manufacturing subsidiaries, regarding those subjects which may not be solved by the subsidiaries themselves, the Development & Production Division and manufacturing subsidiaries are cooperating including in the area of personnel support.

(3) Reinforcement of monitoring system

1) Reinforcement of operation supervising department

With respect to auditing by the operation supervising department, we have reinforced the system of the Operation Supervising Department upon the reflection that

the department failed to discover the inappropriate accounting practices of this time. As of June 1, 2007, the number of staff was increased from 4 to 7, allocating a staff from the office automation department who is conversant with IT, a staff from the financial department who is conversant with settlement procedure, etc.

With respect to the implementation of internal auditing, we have changed the frequency of ordinary auditing of our consolidated subsidiaries from more or less once in two years to once a year. We have also emphatically implemented the follow up of pointed out matters at the time of auditing which need to be improved, and the results of such auditing has been reported to “Management Supervisory Committee” as stated in (1)3) above.

[Auditing record]

Auditing record between June 2007 and December 2007

- Ordinary auditing: Consolidated subsidiaries 14 companies
- Auditing of follow-up: 2 companies

We implemented ordinary auditing and auditing related to the interim settlement to manufacturing subsidiaries.

[Auditing record]

- Ordinary auditing: 2 companies (Included in the above consolidated subsidiaries of the “auditing record”)
- Auditing related to interim settlement: 5 companies

Ordinary auditing, (follow up auditing) as well as auditing related to interim settlement are more or less on schedule.

Matters with problems identified by auditing have been dealt with already. At this moment, there has been no problem that might lead to a recurrence of inappropriate accounting practices reported.

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

a. Internal auditing system of consolidated sales subsidiaries and affiliated sales related companies (Hereafter, “sales subsidiaries etc.”)

For relatively large size sales subsidiaries etc., we have allocated external experts and officers in charge of internal auditing as an internal auditing system. For other sales subsidiaries etc., we have allocated persons in charge of the administrative

department or managers to conduct regular internal auditing.

In the meeting of the group managers meeting on June 14, 2007, we notified “internal auditing of sales companies”, and we have conducted internal auditing according to common auditing criterion since July 2007. The result of auditing has been reported to the board of directors of each company, and the duplicates have been presented to the Management Control Section of Business Division and Operating Supervising Department.

b. Creation of “Management Control Section of Business Division”

The “Management Control Section of Business Division” was created under control of the Head of Business Division as of June 1, 2007 and ordinary monitoring of sales subsidiaries etc. has been conducted. The Management Control Section of Business Division closely checks contents of the reports on results of internal auditing from sales subsidiaries etc., and provides guidance, and the result has been reported monthly to the “Management Supervisory Committee”.

Also, in view of the fact that the object of inappropriate accounting practices of this time was inventory assets, “On-the-spot inventory check guideline” was instituted in November 2007, which will be exercised from the end of the settlement period of sales subsidiaries, December 2007.

As to the monitoring, we created indices of important items of account, account receivables and inventory assets, and we have checked existence of abnormal figures since November 2007. We will emphatically monitor appropriateness of assignment of sales to the fiscal period.

The Management Control Section of Business Division has implemented compliance training seminars of sales subsidiaries etc., since September 2007 as a member of the aforementioned “compliance team”.

(Please refer to (1) 2) b. Continuous implementation of compliance training seminars” regarding actual record.)

(4) Planned personnel reallocation of administrative division

With an understanding that one of the reasons that inappropriate accounting practices failed to be discovered for an extended period of time was static personnel

management, we have conducted personnel changes to reinforce the administrative division and auditing division continuously centering on manufacturing subsidiaries. In recruiting of new employees, we allocated talent with accounting expertise to manufacturing subsidiaries.

We will continue to conduct planned personnel reallocation between manufacturing subsidiaries, manufacturing subsidiaries and the Development & Production Division, and we will continue to recruit personnel with accounting expertise.

(5) Others

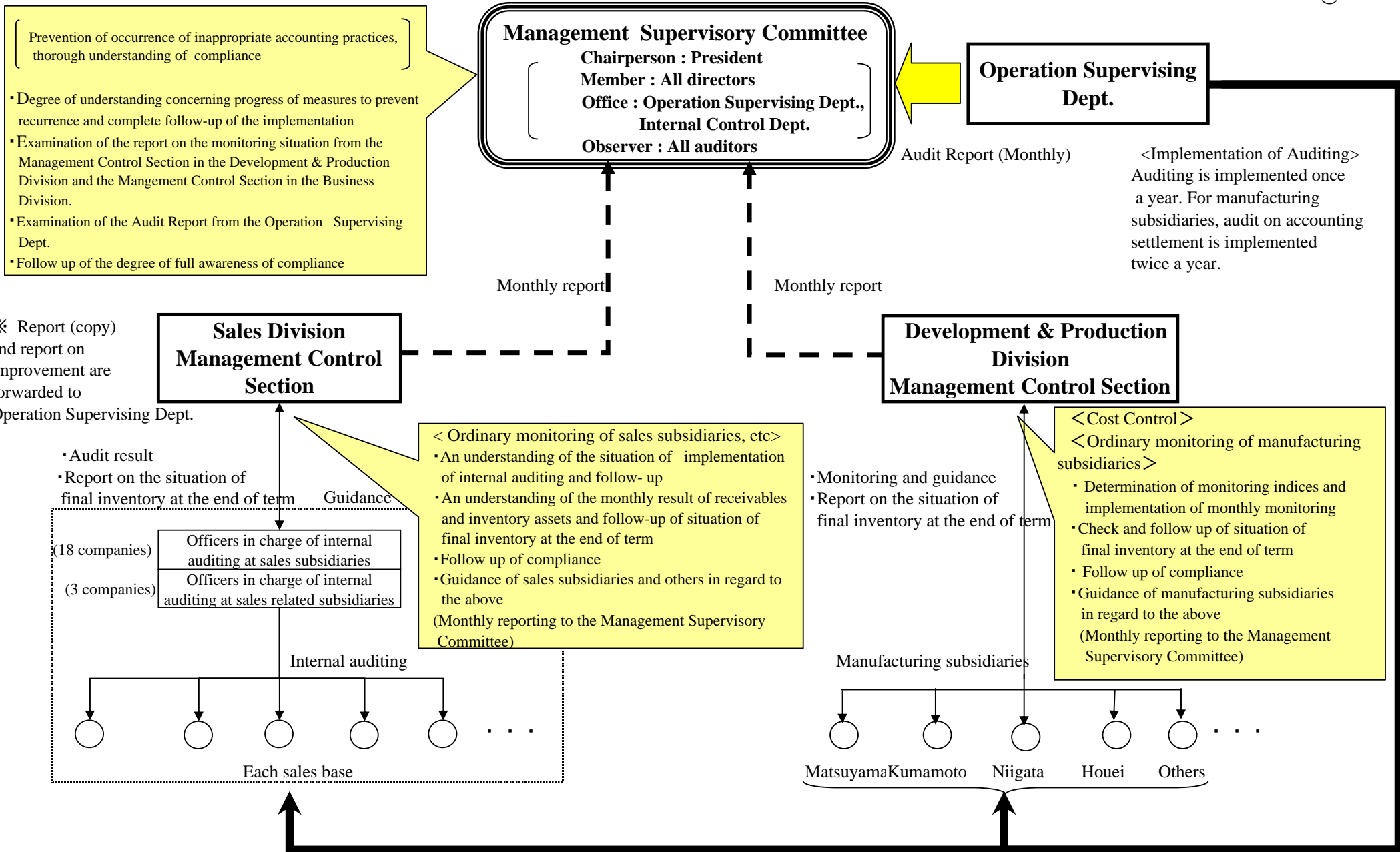
In order to cope with the internal control auditing system of the financial product transaction law, operation flow chart, job statement, and RCM (Risk Control Matrix) have been prepared by consolidated subsidiaries and each department. If any deficiency of internal control should be detected during the process of its building and assessment, it will be promptly rectified, trying to establish an appropriate internal control system.

Since June 2007, The “Management Supervisory Committee” and “Internal Control Promotion Committee” have been held concurrently, following up on the degree of progress.

As stated above, we believe that measures for improvement have been implemented almost as planned.

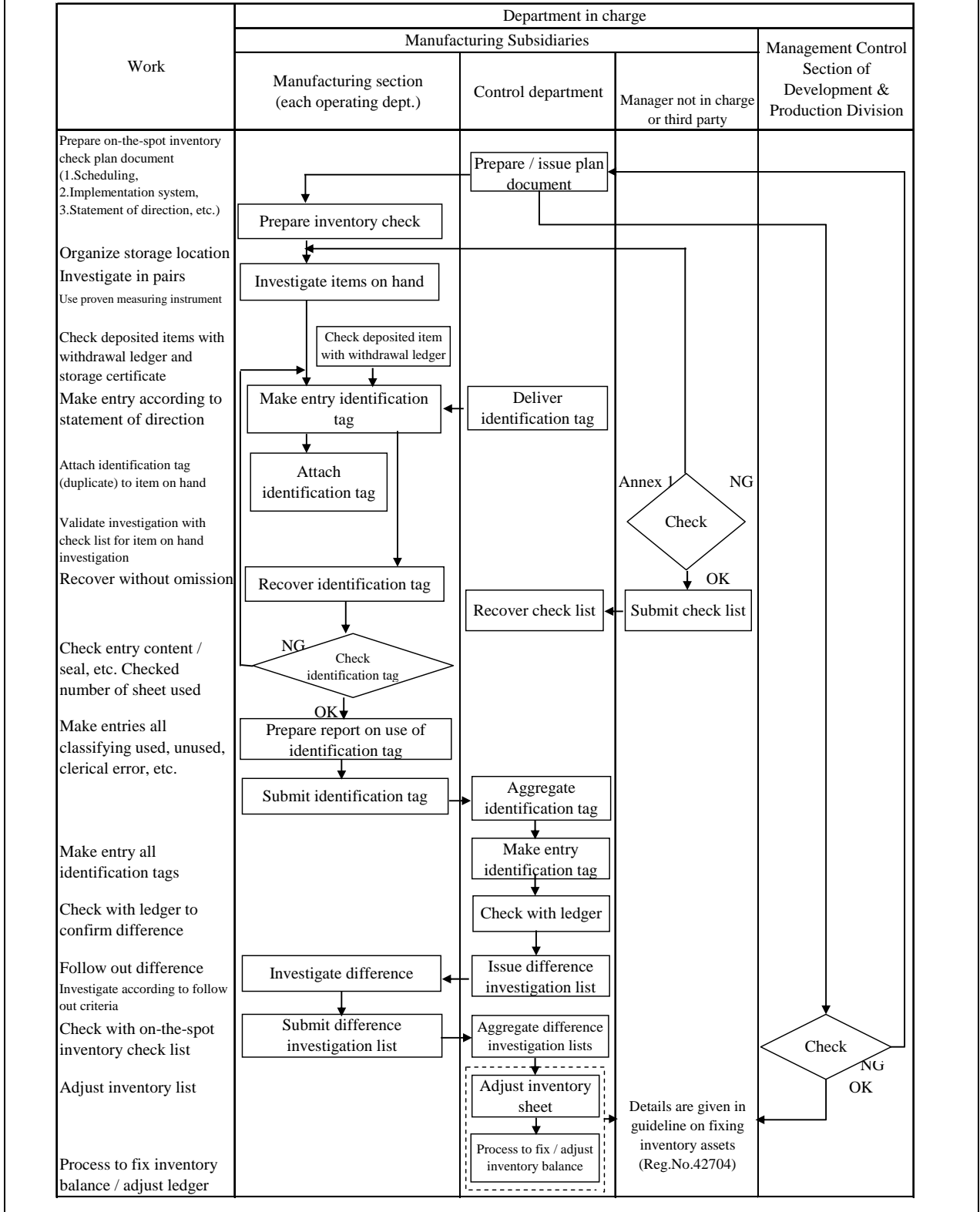
We are determined to make our utmost efforts to try to regain confidence from the securities market as well as society by making appropriate disclosure to our shareholders and investors. Your generous understanding and support shall be greatly appreciated.

【 Organizational System Concerning Monitoring 】



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|------------|---|--|
| | On-the-Spot Inventory Check Guidelines | Issued: Sept.1, 2007 |
| Register | | Revised: |
| No. 420703 | | Dept. in charge: Management Control Section of Development & Production Division |

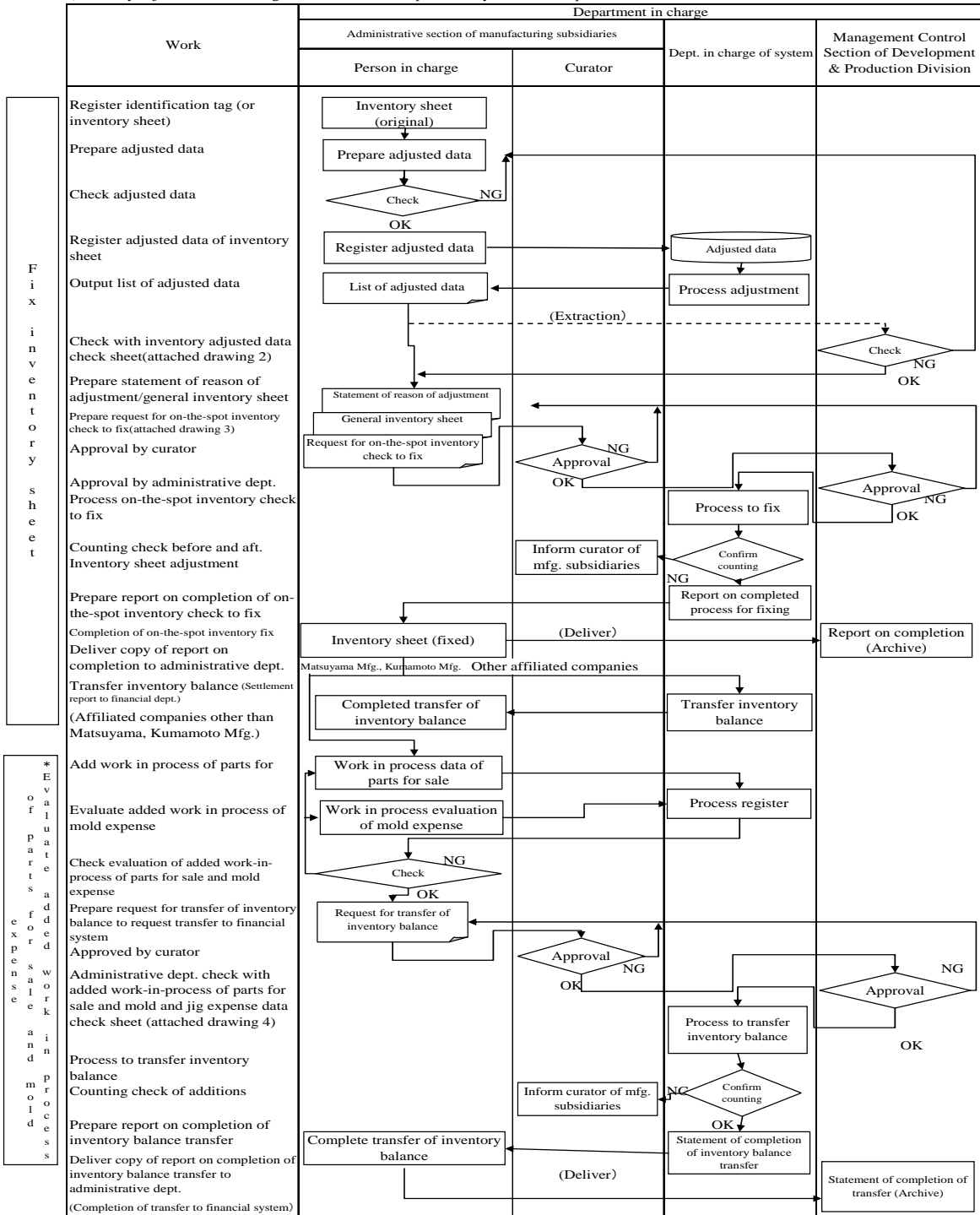
Drawing 1: Flow chart of on-the-spot inventory check



| | | |
|----------------------------|---|---|
| | Guidelines to Determine Inventory Assets | Issued: Sept.1, 2007 Revised: Dept. in charge: Management Control Section of Development & Production Division |
| Register No. 420704 | | |

Drawing 1: Flow chart of inventory sheet adjustment

Drawing 1: Flowchart of inventory sheet adjustment
 (Inventory adjustment scheduling is based on schedule provided by Financial Department)



※Work related to added work in process of parts for sale and mold and jig expense will be conducted exclusively by Iseki-Matsuyama Mfg. Co., Ltd. and Iseki-Kumamoto Mfg. Co., Ltd.