

Notice of Misconduct in the Clean Robot Division

It has turned out that accounting irregularities and improper claims occurred for certain projects commissioned and subsidized by the Ministry of Economy, Trade and Industry (“METI”), the New Energy and Industrial Technology Development Organization (“NEDO”) and the Japan Science and Technology Agency (“JST”) in the Clean Robot Division of the Eco Technologies Company of Fuji Heavy Industries Ltd.(FHI). Having discovered this, FHI filed a criminal complaint today against a former general manager of the Clean Robot Division (dismissed on disciplinary grounds as of February 17, 2012) with Tochigi Police.

FHI expresses its most sincere apology to its shareholders and clients as well as all other related parties for causing great anxiety and annoyance. FHI takes this matter seriously and is determined to further strengthen its compliance system in order to prevent recurrence of similar incidents.

1. Discovery and investigation of misconduct

On August 10, 2011, inappropriate accounting treatments in the Clean Robot Division were pointed out during a tax inspection by Tokyo Regional Taxation Bureau. Internal investigations conducted thereafter raised suspicion that in addition to the inappropriate accounting treatments, improper claims occurred for the projects commissioned and subsidized by METI, NEDO and JST. On October 5, 2011, an internal investigation committee including lawyers and accountants was formed and started further investigations by clarifying financial flows including those to and from suppliers and questioning persons involved. The committee’s investigations have revealed that improper claims occurred and at the same time, accounting irregularities such as window dressing of performance of the Clean Robot Division occurred, at the direction of the former general manager. FHI has reported the facts to METI and other relevant authorities.

2. Facts revealed by internal investigations

- (1) FHI has incurred damages of approximately 106 million yen by the accounting irregularities such as window dressing of performance of the Clean Robot Division and misappropriation of company funds for personal or other use.
- (2) Approximately 194 million yen was obtained through the improper claims for the commissioned projects and the subsidized projects.

3. The accounting irregularities

(1) Outline of the accounting irregularities

(i) Window dressing of performance of the Clean Robot Division

During the period from the fiscal year 2005 to 2010, in order to falsify the division’s performance, the former general manager placed fictitious orders of approximately 266 million yen with several suppliers and made the suppliers purchase products of the Clean Robot Division for approximately 246 million yen with the money paid under such fictitious orders and caused damages of approximately 20 million yen to the company by such circular transactions.

(ii) Pooling of money at suppliers and misappropriation of such money

During the period from the fiscal year 2004 to 2011, the former general manager placed fictitious orders with certain suppliers, pooled approximately 72 million yen at the suppliers, made the suppliers use the money to purchase items for use in the Clean Robot Division and misappropriated the money for his personal use.

(iii) Transferring of money to companies the former general manager was involved in for their incorporation

In the fiscal year 2009 and 2010, the former general manager placed fictitious and padded orders with companies the former general manager was involved in for their incorporation and improperly transferred approximately 14 million yen to the companies.

(2) Action taken against the former general manager

FHI filed a criminal complaint today against the former general manager for fraud with Tochigi Police.

4. The improper claims

(1) Outline of the improper claims for the commissioned projects and the subsidized projects

Out of approximately 1,056 million yen received for eight projects commissioned or subsidized by METI, NEDO and JST, including the Development Project for Intelligent Technologies of Next-generation Robots and the Project of Support for Creating Service Robot Market, approximately 194 million yen was received through improper claims made by the former general manager. The improper claims were made by padding expense claims for the commissioned projects and the subsidized projects based on fictitious orders to and padded bills from suppliers for parts manufacturing work and drawing, etc. and to cover internal labor cost, etc. The funds obtained through these improper claims were used to create false accounting entries. The amount of funds received through the improper claims was revealed by the internal investigations and may change upon investigations by the relevant authorities.

(2) Return of funds obtained through improper claims

FHI will return the funds obtained through the improper claims for the commissioned projects and the subsidized projects, based on findings of investigations by the relevant authorities.

5. Motives and causes for misconduct

(1) Motives for misconduct

At first, the former general manager manipulated the division's accounting to generate funds to use without going through the proper procedures of the company and to inflate the division's accounting figures in order to avoid a deficit at year end. Later, the former general manager started to transfer funds to the companies he was involved in for their incorporation for the purpose of conducting the Clean Robot business privately at the companies.

(2) Causes for misconduct

Because the market for the service robots is extremely small at this point in time and the former general manager had a certain reputation in the industry, he was in a situation that he could conduct the business of the division in his discretion using his connections and influence. In addition, because the Clean Robot Division is a new business unit, is small in size and has little working relations with other units of the company, the division was in an environment where daily operations were conducted without consensus with other sections. The former general manager utilized such unusual circumstances and environment described above and committed misconduct by using shrewd tricks, such as falsifying vouchers in conspiracy with the suppliers.

6. Preventive measures

(1) Reorganization of business control system

To separate line and staff authorities for any scale of business, and rotate personnel who stay in the same post for a long term.

(2) Strengthening of preventive function for accounting irregularities

To provide internal education for persons handling payment and approving payment, and strengthen the management of suppliers by monitoring implementation of screening standards and procedures for suppliers.

(3) Strengthening of internal audit system

To review the system of the Internal Audit Department and strengthen the function to detect misconduct in any department or line of business.

(4) Reconfirmation of compliance

To provide compliance education for all the officers and employees again and ensure that all of them are informed of the Compliance Hotline.

7. Disciplinary action against persons involved

FHI dismissed the former general manager of the Clean Robot Division on disciplinary grounds as of February 17, 2012. FHI will also strictly treat other persons involved in the matter.

8. Effect on the company's financial condition

FHI estimates that this matter has little effect on the company's financial condition.

9. Business of the Clean Robot Division

FHI will review the business of the Clean Robot Division with a view to downsizing and withdrawing from the existing business in the future. The division will continue to conduct its business as a part of the company for the time being, but will not accept a new order. Upon completion of delivery to the customers of the products already ordered, the division will focus on maintenance and after-sales services of the products.

10. Profile of the Clean Robot Division

(1) History

- 1989 Started full-scale research on automation of cleaning equipment at Subaru Research Center Co., Ltd.(at the time)
- 1992 Delivered the first model of cleaning robot
- 1999 Put an elevator boarding system for floor-cleaning robot into practical use
- 2005 Displayed an outdoor cleaning robot and an outdoor garbage can carrying robot at the 2005 World Exposition, Aichi, Japan
- 2007 Put a robot system capable of cleaning outdoor common area in apartments into practical use
- 2009 Developed a farming robot and a robot system capable of cleaning office area

(2) Employees

Regular employees: 7

Temporary employee: 1

Total number of employees: 8

(3) Financial performance

Sales for the fiscal year 2010: 217 million yen