

January 24, 2020

Sumitomo Precision Products Co., Ltd.

**Overstatement of Man-Hours to the Ministry of Defense
Summary of the findings of the Special Committee, completion of repayment of overpayments,
and information on future actions**

As announced in “Notice Concerning Overstatement of Man-Hours to the Ministry of Defense and the Appointment of the Special Committee” dated January 29, 2019, Sumitomo Precision Products Co., Ltd. (“SPP”) discovered that man-hours concerning some defense equipment contracts with the Ministry of Defense had been inappropriately manipulated and overstated. Accordingly, we set up a Special Committee made up of outside specialists that elucidated the facts, investigated causes and examined whether there had been similar cases.

SPP has recently received an investigation report from the Special Committee and completed the repayment of overpayments and payment of penalties, etc., to the national treasury in connection with the overcharging.

We sincerely apologize to our shareholders, business partners and other stakeholders for the inconvenience and concern we have caused. At SPP, all officers and employees will work together to restore trust. We humbly look forward to your continued understanding and support.

1. Summary of the findings of the Special Committee

In its report, the Special Committee pointed out that although it was not able to clarify when and for what purpose the overcharging started, SPP had billed the Ministry of Defense for man-hours that were outside the scope of manufacturing and repair work since the 1960s at the latest. The Special Committee attributes SPP’s continuous man-hour adjustments over the years to poor governance, dysfunctional compliance management and promotion systems, and a lack of compliance awareness.

2. Repayment of overpayments, etc., related to overcharging and its impact on business performance, etc.

SPP voluntarily reported the problem to the Ministry of Defense, and today, based on an agreement with the Acquisition, Technology & Logistics Agency, completed payment to the national treasury of ¥2.5 billion in overpayments and penalties related to the overcharges. As a result, SPP recorded an extraordinary loss of ¥5 billion in the year ended March 31, 2019 (April 1, 2018 - March 31, 2019) as a reserve for the return to the Ministry of Defense of overcharges expected to occur in the future as of January 2019. As for the difference of approximately 2.5 billion yen from the payment this time, we expect to record an extraordinary profit as reserve reimbursement for losses related to defense equipment.



3. Future action plan

Based on SPP's own analysis of the causes and the findings of the Special Committee, the company is taking the following preventive measures:

I. Governance system reform

- A Change of president
- B Reform of the management system
- C Revitalization of discussions on important issues such as governance and internal control at the board of directors and increasing the ratio of outside directors
- D Enhancing the board of corporate auditors
- E Making the management committee a decision-making body

II. Strengthening internal control

- A Reform of the corporate culture
- B Sending of messages from the president to employees
- C Making "prompt reports" and the internal reporting system (review of external reporting and consultation desks and protection of whistle-blowers) well-known
- D Clarification of responsibility and authority for internal control and compliance management and promotion
- E Establishment of a director in charge of compliance and enhancement of affiliated organizations
- F Development of compliance-related rules and systems
- G Strengthening the functions of corporate divisions and strengthening committee activities
- H Increasing personnel rotation

III. Compliance education

- A Lectures by outside experts, compliance training by position and workplace meetings
- B Implementing e-learning
- C Creation and distribution of portable cards containing information on emergency hotlines and ethical tests

We will steadily implement measures to prevent the recurrence of similar incidents and make every effort to regain the trust of our shareholders, business partners and other stakeholders.