

March 19, 2020

SKY Perfect JSAT Holdings Inc.

## **Notice of inappropriate receipt of public funds by our consolidated subsidiary**

SKY Perfect JSAT Holdings Inc. (Head Office: Minato-ku, Tokyo; Representative Director, President: Eiichi Yonekura; hereinafter, “SKY Perfect JSAT”) announced that we have found that the company has been improperly receiving a portion of the subsidy and consignment fees for a part of the subsidy and consignment projects from the New Energy and Industrial Technology Development Organization (hereinafter, “NEDO”) at enRoute Co., Ltd. (Head Office: Asaka City, Saitama Prefecture; Representative Director and President: Kakuro Eguchi; hereinafter, “enRoute”), a consolidated subsidiary of SKY Perfect JSAT.

We sincerely regret and deeply apologize for the great inconvenience caused to all parties concerned by this incident. Going forward, the entire Group will make concerted efforts to prevent recurrence.

### **1. Background**

In response to doubts about the appropriateness of receiving subsidies for projects funded by NEDO at enRoute, SKY Perfect JSAT has been conducting a thorough investigation. In addition, enRoute has been conducting necessary investigations on other projects funded by public institutions, including NEDO.

Of these, eight subsidies and outsourcing projects for which NEDO directly received subsidies and outsourcing expenses were reported to NEDO, and those involved fully cooperated in the survey. As a result, it was revealed that some of the subsidies and outsourcing costs were inappropriately received from NEDO for four projects (hereinafter referred to as the “Subject Projects”) from Fiscal Year 2016 to Fiscal Year 2018 out of eight projects implemented by receiving subsidies and outsourcing costs directly from NEDO.

Regarding the Subject Projects, grant-in-aid projects (hereinafter referred to as “fire-fighting projects”) implemented based on the Notice of Subsidy for Industrial Technology Development Costs Establishing Issue (Project Number: 17100414-0) were ongoing projects, unlike the other three projects (hereinafter referred to as “other projects”), and therefore, enRoute has applied to NEDO for the abolishment of such grant-in-aid projects.

## **2. Facts found**

### **(1) Regarding the receipt of labor costs**

In each subject matter, some of the contents in the journal were different from the actual working conditions of the employees, and it was discovered that a considerable amount of expenses that should not have been recorded as labor costs in relation to the eligible cases for grants and consignment expenses were recorded.

We also discovered violations of procedures to be followed when receiving labor costs from NEDO.

### **(2) Regarding the receipt of outsourcing expenses**

It was found that in each subject matter, outsourcing costs other than the subject matter were recorded as outsourcing costs, etc., for the subject matter.

In addition, we discovered violations of internal regulations that must be observed when recording outsourcing costs.

### **(3) Other**

In addition to the above, during the course of the investigation, a press release was issued on March 6, 2019, regarding fire-fighting projects, entitled “Developing the world's first 300°C fire-resistant drone capable of infiltrating fire sites and taking short-range air shots: Sample monitoring starting in April, aiming to become a ‘Flying Teammate for Fire Fighters.’” In the demonstration tests at that time, it was found that performance was not sufficiently confirmed or verified.

## **3. Causes of inappropriate receipts**

EnRoute had in place a system that included the introduction of process control tables and product purchasing control rules as internal procedures. However, the management system was weak, the awareness of the appropriateness of subsidies and consignment fees among enRoute executives and employees was poor, and the checking function by managers was not effective. As a result, these control systems were not operating effectively.

## **4. Measures and actions by NEDO**

The outline of the measures by NEDO related to other projects is as announced today by NEDO, and for other projects, enRoute received partial cancellation of the decision to issue a total of approximately 44 million yen. In addition, enRoute received a request for a refund of 180 million yen in connection with the total cancellation of the fire service project.

The SKY Perfect JSAT Group takes this disposal very seriously and will take appropriate measures.

## **5. Requisites for recurrence prevention**

Based on the abovementioned causes and other factors, SKY Perfect JSAT recognizes the need for revisions, such as regarding the development of regulations and the establishment of an operating system to ensure appropriate responses to public fund receipts. Based on this recognition, we will promptly and steadily implement the following measures to prevent recurrence in order to strengthen governance and foster and instill compliance awareness.

### **(1) Strengthening governance and control procedures**

In order to strengthen the management structure of enRoute, on February 5, 2020, the president and CEO of enRoute was replaced. Furthermore, in light of the cause of this incident, other executive personnel changes will be made on April 1, and the management structure of enRoute will be renewed.

In addition, SKY Perfect JSAT has made it mandatory for its consolidated subsidiaries to deliberate on public fund receipts at the Management Committee of SKY Perfect JSAT. At enRoute, the Company has strengthened controls, such as establishing internal rules and approval rules for public fund receipts, and will thoroughly implement these rules.

The Disclosure Committee within SKY Perfect JSAT will implement a thorough check of the content of the disclosing information by consolidated subsidiaries.

### **(2) Strengthening compliance**

Training regarding appropriate management of public fund receipts, etc., will be provided to all enRoute officers and employees as soon as possible. In addition, we will adopt programs related to the receipt of subsidies and other public funds in the compliance training conducted by the SKY Perfect JSAT Group in order to raise awareness and thoroughly implement regulations and rules.

### **(3) Internal Group audits**

For the audits of Group companies conducted by the Internal Audit Department at SKY Perfect JSAT, we position grants and other public funds as priority items for auditing. We will conduct thorough audits, including the actual status of transactions, and will strengthen the auditing function to ensure the appropriateness and legality of transactions. In addition, we will continue to follow up on the status of compliance with the measures (regulations, rules, etc.) to prevent recurrence of this incident, including on the operational side.

### **(4) Disposition by officers and employees**

The officers and employees involved in this incident were subject to proper procedures and strict disciplinary action.

## **6. Impact on financial results**

Approximately 220 million yen in money refunds, etc., related to the target project will be processed at the settlement in the period ending March 2020, but the impact on the consolidated performance of the current period of SKY Perfect JSAT is negligible.

There are no revisions to the financial statements for prior years.