

March 10, 2009
Internal Investigation Committee
Futaba Industrial Co., Ltd.

Summary of Investigation Report by Internal Investigation Committee

1. Major issues relating to the restatement of full-year business results

- (1) Failure to transfer amounts from construction in progress to the corresponding accounts upon completion and insufficient recognition of related depreciation expenses:
 - (a) Jigs for domestic production, (b) R&D expenses, (3) Installation and adjustment expenses
- (2) Failure to transfer from work in process to COGS:
 - (a) Jigs, equipment and testing tools for shipment to overseas subsidiaries, (b) Welding machines for shipment to auto companies
- (3) Insufficient evidence for classifying installation and adjustment expenses as assets; and one-time recognition of related period cost

2. Background to the restatement

- (1) Rapid increase in domestic demand
- (2) Rapid overseas expansion
- (3) Rapid increase in investment due to plant reforms

Efficiency increases within the administrative division, including the Accounting Department, did not keep pace with the abovementioned increases and overseas expansion. This resulted in insufficient communication between the Accounting Department and related departments.

3. Causes of the restatement

The restatement was made necessary by two major factors:

- (1) Insufficient communication between the Accounting Department and related departments due to lagging efficiency improvements in existing work flows.

Insufficient information to transfer amounts from construction in progress to the related accounts upon completion and to reconcile work in process with COGS.

- (2) Difference in the understanding of account classification standards and of necessary evidential documents relating to installation and adjustment expenses

The Company understood that classifying installation and adjustment expenses as assets was reasonable. Although the audit firm acknowledges that adjustment expenses may have asset characteristics, the audit firm was unable to approve this accounting treatment because of the lack of supporting materials.

4. Preventive measures

Preventive measures are required in relation to the following four issues:

- (1) Failure of transfer of construction in progress and work in process
- (2) Evidence of the assets characteristics of installation and adjustment expenses
- (3) Strengthening of internal control systems
- (4) Strengthening of management

The Company has been implementing improvement measures for these issues, largely since October 2008.

Summary of Investigation Report by External Investigation Committee

2. Conclusions

- (1) Causes of accounting treatments that led to the restatement

Causes of inappropriate accounting treatments relating to work in process and construction in progress:

- The Company did not implement measures (e.g., increasing headcount, investing in information technology) to cope with the increased workload at the Accounting Department.
- The Accounting Department, while aware of the excessive burden, did not improve the situation in a timely manner.

- (2) Recognition of installation and adjustment expenses as assets

This means that the audit firm reached its conclusion and expressed an audit opinion without reconciling the expenses with accounting vouchers that would form the basis of appropriate accounting treatment of expenses related to the Company's Five-step Efforts.

(3) Judgment regarding deliberateness

There was concern within the Accounting Department of excessive accounting workloads and the potential for inappropriate accounting processing due to the rapid expansion of business and the Company's Five-step Efforts. However, it is reasonable to assume that the department was forced to carry out the accounting processing with its existing staff. In light of these factors, the Committee does not conclude that the inappropriate accounting treatment was conducted deliberately.

(4) Evaluation of improvement measures

Appropriate countermeasures have largely been formulated and implemented against the identified technical causes. While these actions are to be commended, the Committee also urges that it is crucial for management, in particular, and employees to share an understanding of the philosophy and practice of corporate governance.