

[Translation]  
June 25, 2015

For Immediate Release

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**Notice on Content of Matters to be Reported at the  
Ordinary General Meeting of Shareholders for the 176<sup>th</sup> Fiscal Year**

As announced on May 29, 2015 in “Notice on Holding the Ordinary General Meeting of Shareholders,” Toshiba Corporation (the “Company”) will hold its ordinary general meeting of shareholders for the 176th fiscal year on June 25, 2015 (the “Meeting”). At the Meeting, the Company will make a proposal on the election of directors, and seven shareholder proposals (from one shareholder) will also be discussed. In addition, the Company will also report on the status of investigations currently being undertaken by an Independent Investigation Committee in four areas of accounting which the Company delegated to the Committee: in relation to the percentage-of-completion method; in relation to recording of operating expenses in the Visual Products Business; in relation to valuation of inventory in the Semiconductor Business, mainly in respect of discrete and system LSIs; and in relation to component transactions in the PC Business. This statement will be as comprehensive as possible at this time, and supported with visual aids.

The Company expresses its sincere apologies to its shareholders, investors and all other stakeholders for any concerns or inconvenience caused by the current investigation into accounting.

1. Resolutions to be Proposed at the Ordinary General Meeting of Shareholders

(1) Company Proposals

First Proposal: Election of sixteen (16) Directors

The current terms of all sixteen (16) directors will expire at the conclusion of the Meeting. Based on a decision made by the Company’s Nomination Committee, the Company will propose the election of sixteen (16) directors listed in attachment 1. This is a proposal for the short-term reelection of the current directors. After the Independent Investigation Committee completes its investigation, the Company will

hold an extraordinary general meeting of shareholders and make a further proposal regarding the appointment of directors. Therefore, if the First Proposal is passed, the terms of office of the sixteen (16) reelected directors will be until the conclusion of the first extraordinary general meeting of shareholders held within a year of the date of the Meeting, notwithstanding Article 20 of the Company's Articles of Incorporation. For details, please see "Convocation Notice of the Ordinary General Meeting of Shareholders for the 176<sup>th</sup> Fiscal Year."

([http://www.toshiba.co.jp/about/ir/en/stock/pdf/tsm176e\\_conv.pdf](http://www.toshiba.co.jp/about/ir/en/stock/pdf/tsm176e_conv.pdf))

## (2) Shareholder Proposals

Proposals 2 to 8, as detailed below, were proposed by an individual shareholder who has made numerous shareholder proposals for eight consecutive years, including proposals related to an individual case that occurred and was resolved more than 20 years ago.

The Company has received thirteen (13) proposals from this shareholder for the Meeting. Six were excluded as they clearly did not meet the legal requirements, and the remaining seven proposals will be discussed at the Meeting. The Company's Board of Directors opposes all of the shareholder proposals. For details, please see "Convocation Notice of the Ordinary General Meeting of Shareholders for the 176<sup>th</sup> Fiscal Year."

([http://www.toshiba.co.jp/about/ir/en/stock/pdf/tsm176e\\_conv.pdf](http://www.toshiba.co.jp/about/ir/en/stock/pdf/tsm176e_conv.pdf))

- Proposal 2: Amendments to the Articles of Incorporation regarding exercise of voting rights at general meetings of shareholders
- Proposal 3: Amendments to the Articles of Incorporation regarding effective use of assets
- Proposal 4: Amendments to the Articles of Incorporation regarding purchase of own shares
- Proposal 5: Amendments to the Articles of Incorporation regarding individual disclosures of information on directors and executive officers
- Proposal 6: Amendments to the Articles of Incorporation regarding review of the nuclear power business
- Proposal 7: Amendments to the Articles of Incorporation regarding disclosure of information on persons who joined the Company from public institutions such as governmental agencies
- Proposal 8: Amendments to the Articles of Incorporation regarding conditions of employment of non-regular employees

## 2. Matters to be Reported at the Ordinary General Meeting of Shareholders

### (1) Subject of Reporting Investigation related to Inappropriateness of Accounting

On April 3, 2015, the Company established a Special Investigation Committee whose members include outside experts, and conducted an investigation into the percentage-of-completion method of accounting used in certain infrastructure projects undertaken by the Company. As a result, the Company identified projects in which the percentage-of-completion method of accounting was used, wherein the

total amount of contract cost was underestimated or where contract losses (including provisions for contract loss) were not recorded in a timely manner in its in-house companies—the Power Systems Company, the Social Infrastructure Systems Company, and the Community Solutions Company. The Company has also found that further investigation was necessary for projects other than those in which the percentage-of-completion method of accounting was used, including matters such as the appropriateness of the timing of recording and the amount of provisions for loss, the appropriateness of the timing of the recording of operating expenses, and the appropriateness of valuations of inventory.

In light of this situation, and in order to further enhance the confidence of stakeholders in the results of the investigation, the Company decided on May 8, 2015, to change the framework of the investigation to one to be conducted by an Independent Investigation Committee that conforms to the guideline prescribed by the Japan Federation of Bar Associations by being composed solely of fair and impartial outside experts

The matters delegated to and currently under investigation by the Independent Investigation Committee for investigation are:

- 1) Accounting in relation to the percentage-of-completion method;
- 2) Accounting in relation to recording of operating expenses in the Visual Products Business;
- 3) Accounting in relation to valuation of inventory in the Semiconductor Business, mainly discrete and system LSIs; and
- 4) Accounting in relation to component transactions etc., in the PC Business.

The Company will provide an outline of the above four accounting issues at the ordinary general meeting of shareholders, as detailed in attachment 2.

Also, as announced on June 12, as of the point at which the Special Investigation Committee made its report to the Independent Investigation Committee, the Special Investigation Committee had identified a cumulative amount requiring correction of approximately 51.2 billion yen on an operating income basis for fiscal 2009 to fiscal 2013 in relation to accounting using 1) the percentage-of-completion method. However, the amount of impact on operating profit in relation to 2) through 4) has not been able to be ascertained by the Company, given the diverse nature of transactions subject to investigation and that the Company is unable to definitively determine the appropriate accounting principles that should have been applied. Further, as a result of the self-check conducted by the Company in parallel with the investigation by the Independent Investigation Committee, the Company is expecting the cumulative amount to be corrected for past fiscal years in relation to matters not delegated to the Independent Investigation Committee to be approximately 3.6 billion yen for fiscal 2009 through fiscal 2013.

As announced on June 12, please note that these figures may ultimately change significantly. For details, please see the June 12 “Notice on the Result of Self-Check by Consolidated Subsidiaries, Outline of Investigation by Special Investigation

Committee and Relationship to Items Delegated to Independent Investigation Committee”.

###

**Candidates for Directors and Executive Officers**

**1. Nominees for Directors**

|                            |                              |
|----------------------------|------------------------------|
| Chairman of the Board      | Masashi Muromachi (Director) |
| Vice Chairman of the Board | Norio Sasaki                 |
| Directors                  | Hisao Tanaka                 |
|                            | Hidejiro Shimomitsu          |
|                            | Masahiko Fukakushi           |
|                            | Kiyoshi Kobayashi            |
|                            | Toshio Masaki                |
|                            | Naoto Nishida                |
|                            | Keizo Maeda                  |
|                            | Fumiaki Ushio                |
|                            | Makoto Kubo                  |
|                            | Seiya Shimaoka               |
|                            | Hiroyuki Itami               |
|                            | Ken Shimanouchi              |
|                            | Kiyomi Saito                 |
|                            | Sakutarō Tanino              |

Note: Four candidates have been nominated as outside directors: Hiroyuki Itami, Ken Shimanouchi, Kiyomi Saito and Sakutarō Tanino

###

**Regarding the Sequence of Events Leading to the  
Investigation on Appropriateness of Accounting**

As previously announced, the Company established a Special Investigation Committee and examined the appropriateness of the percentage-of-completion method of accounting used in certain infrastructure projects undertaken by the Company. To the extent identified in the investigation by the Special Investigation Committee, the cumulative amount requiring correction for percentage-of-completion method of accounting is expected to be approximately negative 51.2 billion yen on an operating income basis for fiscal 2009 through fiscal 2013, and the Company disclosed the breakdown of this figure on June 12.

However, in the course of its investigation, the Special Investigation Committee found materials, etc. that raised concerns about the appropriateness of accounting regarding issues other than the percentage-of-completion method, so the Company conducted an internal investigation, as a result of which it was determined that examination was required for accounting in businesses such as the Semiconductor business and Visual Products business, which are businesses as large in size as the Social Infrastructure business. Also, although it is not a matter identified in the investigation by the Special Investigation Committee, the Company determined that examination was required for accounting in the PC business.

Therefore, as previously announced, the Company established an Independent Investigation Committee, in conformity with guidelines prescribed by the Japan Federation of Bar Associations, and delegated to such Committee an investigation of the following four accounting issues, including determining the relevant facts and identifying the causes: 1) accounting in relation to the percentage-of-completion method, 2) accounting in relation to recording of operating expenses in the Visual Products business, 3) accounting in relation to the valuation of inventory in the Semiconductor business, mainly discrete and system LSIs, and 4) accounting in relation to component transactions, etc. in the PC business.

In respect of 1) accounting in relation to the percentage-of-completion method, as stated above, the Company ascertained and disclosed the amount requiring correction to the extent identified by the Special Investigation Committee, but such disclosure is only an outline of the investigation up to the point at which the Special Investigation Committee reported the progress of its investigation to the Independent Investigation Committee, and the Independent Investigation Committee has yet to reach any final conclusion. The progress of the investigation by the Special Investigation Committee has been reported to the Independent Investigation Committee, and the Independent Investigation Committee is currently carrying out further investigations.

On the other hand, it is difficult for the Company to calculate the amounts to be corrected for 2), 3) and 4), given that, due to the following reasons, it is extremely difficult for the Company to judge the appropriateness of the accounting principles adopted in each such case: in the case of 2), the volume of transactions requiring examination is massive and the transactions include those involving countries other than Japan, and so the Company is unable to ascertain the full picture of the transactions; in the case of 3), the methods used to value inventory assets are extremely complicated and it is extremely difficult to examine

whether valuation methods were being correctly used; and in the case of 4), the scale of transactions subject to investigation is expansive and the transactions include those involving countries other than Japan so it is extremely difficult to ascertain the full picture of the transactions.

As announced on June 12, the Company conducted a self-check, in parallel to the investigation by the Independent Investigation Committee, regarding the matters other than those delegated to the Independent Investigation Committee (i.e. matters other than 1) through 4) above), and as a result of the self-check the Company identified 12 cases of inappropriate accounting whose impact is considered to extend to past fiscal years, and the Company expects that the cumulative amount to be corrected for past fiscal years is approximately 3.6 billion yen for fiscal 2009 through fiscal 2013. Please note that this figure needs to be subject to an accounting audit by Ernst & Young ShinNihon LLC and is not definitive. Please also note that this figure does not include the amount pertaining to matters under investigation by the Independent Investigation Committee.

The Company expresses its sincere apologies to its shareholders, investors and all other stakeholders for this irregular situation. The Company will continue to fully cooperate with the investigation by the Independent Investigation Committee, and will support the investigation with all sincerity.

The matters that the Company is currently aware of in relation to the investigation into appropriateness of accounting are as follows.

### **1. Accounting methods delegated to the Independent Investigation Committee for investigation**

The following are the matters that the Company is currently aware of relating to the matters delegated to, and currently under investigation by, the Independent Investigation Committee: accounting in relation to the percentage-of-completion method; accounting in relation to recording of operating expenses in the Visual Products Business; accounting in relation to valuation of inventory in the Semiconductor Business, mainly in respect of discrete and system LSIs; and accounting in relation to component transactions etc., in the PC business

The details of these four accounting matters are currently under investigation by the Independent Investigation Committee, and will be announced once the investigation report is received from the Independent Investigation Committee. The Independent Investigation Committee has informed the Company that it currently expects to submit the investigation report in mid-July.

#### **1) Accounting in relation to the percentage-of-completion method (See Attachment 3, slides 6 to 8)**

Under accounting principles, the general rule on the timing of recognition of revenue is when the customer has accepted and inspected the product. However, for contracts in such areas as construction and customized software development, revenue is recognized each period as a percentage of the work completed during that period. This is called the percentage-of-completion method.

The percentage-of-completion method is an accounting method that is unique in that the

contract revenue and contract cost of a project are recognized while the project is still in progress, in respect of the percentage of the work completed as of that period.

The percentage-of-completion method involves estimating the total contract revenue and total contract cost prior to completion of the project, and then recording the contract revenue for that period according to the percentage of work completed during that period, and this requires reliable estimates of total contract revenue and total contract cost. Particularly in the case of the total contract cost, changes in figures often occur after the project starts due to various circumstances, requiring timely and correct revisions to the estimate of the total contract cost.

It is also possible that the total contract cost estimated reasonably in the above manner may ultimately exceed the total contract revenue. When that happens, the amount of the estimate that is in excess, less the amount of profit (loss) already recorded, must be treated as a contract loss in the period in which such loss becomes evident, and recorded as a provision for loss.

In the present case, the Special Investigation Committee has identified that unrealistic cost reduction measures were included in percentage-of-completion method accounting, producing inappropriate estimates of total contract costs.

This means it is considered that, in the instances identified, inappropriate accounting took place such as provisions for loss not being timely or correctly recorded, or excessive profit being recorded.

The above is an outline of the accounting in relation to the percentage-of-completion method. Please also see slides 6 to 8 of Attachment 3 which provide an explanation using diagrams and the like.

2) Accounting in relation to recording of operating expenses in the Visual Products business (See Attachment 3, slides 9 to 10)

It is considered that there are issues of concern in relation to the recording of operating expenses, such as 1) that the timing of recording of provisions was not accurate, and 2) that costs for materials incurred in one period were recorded in the following period by coordinating with vendors to adjust the purchase price of materials and carry over part of the payment to the following period.

The above is an outline of the accounting in relation to recording of operating expenses in the Visual Products business. Please also see the explanation on slides 9 to 10 of Attachment 3.

3) Accounting in relation to valuation of inventory in the Semiconductor business, mainly discrete and system LSIs (See Attachment 3, slides 11 to 13)

The semiconductor manufacturing process can be broadly divided into two phases: in the 'front-end process' semiconductor dies are made by forming circuits on a silicon substrate, the wafer; in the 'back-end process', the dies are assembled and packaged as a final product and subjected to inspection and quality tests.



The current accounting issue is that, as a result of that revision of standard cost was not properly made in the two manufacturing processes, there is a potential concern that overvaluation of inventory assets caused recording of excessive profit.

First, the underlying accounting principle can be explained in simple terms as follows.

Manufacturing products incurs various expenses, such as material costs, manpower costs, and depreciation of facilities. These are called “costs.” Generally, costs are recorded as the amount of cost as actually incurred, but in the case of mass production, identifying the actual costs of all products in a timely manner can be difficult. For this reason, the ‘standard cost’ mentioned previously is usually adopted.

As the standard cost is an estimate, in actual operations differences occur between the standard cost and the actual cost, a factor known as ‘cost variance’.

When a cost variance occurs, it is allocated to the cost of sales and to the end of term inventory assets, in proportion to the amount of standard costs.

But as the standard cost must be a price that is in line with the actual situation, it must be subject to ongoing scrutiny as to its appropriateness, and revised whenever there is a significant change in the actual situation.

The accounting issue in the Semiconductor business that is subject to this investigation is that, when the standard cost was revised upwards, although the standard cost for the front-end process had been revised to match indicators such as the plant operating rate, the standard cost for the finished product in back-end process had not been revised from the initial amount.

There are also concerns on the appropriateness of the recorded value for inventories of products stocked for customers (discrete semiconductors and system LSI semi-finished products and finished products) that have already ended production due to business restructuring.

The above is an outline of the accounting in relation to valuation of inventory in the Semiconductor business. Please also see slide 11 to 13 of Attachment 3, which provides an explanation using diagrams and the like.

#### 4) Accounting in relation to component transactions, etc., in the PC business (See Attachment 3, slides 14 to 15)

The Company outsources most of its PC production to ODMs outside Japan. In order to maintain competitiveness, the Toshiba Group as a whole bulk-purchases parts and components, such as LCD panels, hard disk drives and memory chips, from vendors at a volume discount, and sells them to the ODMs. The Company then buys assembled PCs from the ODMs as final products.

In parts and components transactions, the Company sets the selling price of parts and components to ODMs higher than the Company’s actual purchase price, in order to prevent

leaks of information on purchasing prices to ODMs. The Company understands this to be common practice among PC vendors.

In such transactions, there is a concern about the appropriateness of accounting of the amount equivalent to the profit recorded when components were sold because, while component transactions and finished product transactions are handled under separate contracts with the ODMs, the difference between the component selling price set by the Company and the actual market price of such components increases due to falls in the latter, and it is possible that the amount equivalent to the price of the components sold to the ODMs was coming back incorporated into the finished goods.

The above is an outline of the accounting in relation to component transactions, etc. in the PC business. Please also see the explanation in slides 14 to 15 of Attachment 3.

## **2. Status of examination of measures to prevent recurrence**

The Company has delegated to the Independent Investigation Committee the task of identifying causes and recommending preventive measures for any accounting methods subject to its investigation that are determined to lack appropriateness. The Company will thoroughly heed the recommendations of the Independent Investigation Committee, and will strive to prevent recurrences by immediately formulating various measures that implement those recommendations.

Further, in aiming to avoid a similar situation occurring again, the Company plans to further strengthen its corporate governance structure such as by increasing the number of outside directors. The Company is also examining the formulation of a management manual for accounting in relation to the percentage-of-completion method, which would include clarification about evaluating risk factors before receiving orders, and a review of processes such as the formation of evaluation teams to manage project costs, with members drawn from the concerned division and corporate staff members.

## **3. Sequence of events to date**

| Date           | Outline of Events   |
|----------------|---|
| Feb. 12, 2015  | The Company received an order from the Securities and Exchange Surveillance Commission, based on Article 26 of the Financial Instruments and Exchange Act, requiring submission of a report. The Company was then subject to inspection regarding projects that used percentage-of-completion accounting. (*1)  |
| Late Mar. 2015 | In order to comply with an instruction given in the inspection relating to projects in which the percentage-of-completion method was used, the Company carried out an internal investigation. This investigation identified some infrastructure-related projects that used the percentage-of-completion method of accounting and that needed further investigation. |
| Apr. 3, 2015   | Recognizing the gravity of the issue, the Company announced on April 3, 2015, the setting up of a Special Investigation Committee, chaired by Masashi Muromachi, the Chairman of the Board of   |

|               |   |
|---------------|---|
|               | Directors of the Company. In order to ensure expertise and objectivity in the Committee's investigation, the Company also appointed an attorney-at-law and certified public accountant from outside the Toshiba Group to the Committee. The Special Investigation Committee investigated relevant matters and examined the appropriateness of the use of the percentage-of-completion method of accounting in projects undertaken by the Company (*2).  |
| May 8, 2015   | In the course of the investigation, the Special Investigation Committee determined that investigation was also required in certain areas other than projects in which the percentage-of-completion method of accounting was used. The Company accordingly changed the framework of the investigation to one conducted by an Independent Investigation Committee, composed solely of fair and impartial outside experts with no interests in the Company. The establishment of the Independent Investigation Committee was announced on May 8, 2015.   |
| May 15, 2015  | The Company announced the appointment of the members of the Independent Investigation Committee on May 15, 2015.  |
| May 22, 2015  | The Company determined and announced the specific scope of investigation to be delegated to the Independent Investigation Committee for investigation on May 22, 2015. The Independent Investigation Committee started to investigate the four accounting cases delegated to it by the Company. In parallel, the Company carried out a self-check on the appropriateness of accounting methods that covered the Company and its Group of 584 consolidated subsidiaries as of the end of March 2015 (585 companies in total) (*3).   |
| May 29, 2015  | The Company's Board of Directors, holding a meeting on May 29, 2015, decided to hold the general meeting of shareholders for the 176 <sup>th</sup> fiscal term on June 25, 2015, and announced the decision that day. On the same date, the Company also submitted an application which was approved by the Ministry of Finance's Kanto Local Finance Bureau of the Company's postponement of the legal submission deadline for the 176 <sup>th</sup> Annual Securities Report and the 177 <sup>th</sup> First Quarterly Securities Report, which will be based on the report by the Independent Investigation Committee. The Company announced it that day. (*4) |
| June 12, 2015 | The Company announced an outline of the investigation by the Special Investigation Committee and the result of the self-check.  |
| June 15, 2015 | The Company announced the date of record for the convocation of the extraordinary general meeting of shareholders (*5).   |

\*1 Initially, the Company refrained from making an announcement that it was undergoing an inspection by the Securities and Exchange Surveillance Commission, at the request of the Commission and after taking into account issues such as any potential hindrance to ensuing investigations. The Company subsequently received consent to make disclosure from the related parties.

\*2 Please see the June 12 "Notice on the Result of Self-Check by Consolidated Subsidiaries,

Outline of Investigation by Special Investigation Committee and Relationship to Items Delegated to Independent Investigation Committee” for more details.

[http://www.toshiba.co.jp/about/ir/en/news/20150612\\_1.pdf](http://www.toshiba.co.jp/about/ir/en/news/20150612_1.pdf)

\*3 Please see the June 12 “Notice on the Result of Self-Check by Consolidated Subsidiaries, Outline of Investigation by Special Investigation Committee and Relationship to Items Delegated to Independent Investigation Committee” for more details.

[http://www.toshiba.co.jp/about/ir/en/news/20150612\\_1.pdf](http://www.toshiba.co.jp/about/ir/en/news/20150612_1.pdf)

Note that the results of the self-checks are not finalized amounts audited by the Company’s independent accounting auditor, Ernst & Young ShinNihon LLC.

\*4 The postponed deadlines are August 31, 2015 for the 176th Annual Securities Report, and September 14, 2015 for the 177th First Quarterly Securities Report.

\*5 A certain media outlet has reported that the Company intends to pay a dividend to shareholders, with the end of June as the date of record. There is no such plan, and June 30 has not been set as the date of record for a dividend. Due to accounting being under investigation by the Independent Investigation Committee, it is undetermined as to whether a dividend will be paid.

# # #

**This material has been prepared for the sole purpose of assisting your understanding of this matter. Accordingly, in providing this explanation, we have omitted certain facts and simplified some concepts, and no representation is made as to its completeness or accuracy.**

**Please also note that the graphs contained herein do not represent the actual scale of the figures.**

## **Sequence of events to date**

- |                  |  |
|------------------|--|
| <b>Feb. 12</b>   | <b>Received order to submit a report</b>   |
| <b>Late Mar.</b> | <b>Identified matters requiring investigation regarding percentage-of-completion method of accounting used in some infrastructure projects</b> |
| <b>Apr. 3</b>    | <b>Established the Special Investigation Committee</b>   |
| <b>May 8</b>     | <b>Determined that an Independent Investigation Committee be established</b>   |
| <b>May 15</b>    | <b>Appointed the members of the Independent Investigation Committee</b>  |
| <b>May 29</b>    | <b>Approval received for postponement of deadline to submit annual securities report</b>   |

- ( 1 ) Results of self-check**
- ( 2 ) Percentage-of-completion method**
- ( 3 ) Expenses recording in the Visual Products business**
- ( 4 ) Inventory valuation in the Semiconductor business**
- ( 5 ) Component transactions in the PC business**

- ( 1 ) Results of self-check**
- ( 2 ) Percentage-of-completion method**
- ( 3 ) Expenses recording in the Visual Products business**
- ( 4 ) Inventory valuation in the Semiconductor business**
- ( 5 ) Component transactions in the PC business**

# (1) Results of self-check

## Overview of self-check

- *Companies that performed a self-check:* Toshiba Corporation and its 584 consolidated subsidiaries (585 companies total)
- *Period covered by the self-check:* FY 2009 through the end of May 2015
- *Method used to perform the self-check:* Companies checked whether they had engaged in or were aware of any accounting that was not in compliance with accounting principles or company rules, or any other inappropriate accounting

## Results of self-check

Number of cases identified as inappropriate accounting

**12** cases

Cumulative amount of impact for FY 2009 through FY 2013

Approx. **3.6** billion yen

(1) Results of self-check

(2) Percentage-of-completion method

(3) Expenses recording in the Visual Products business

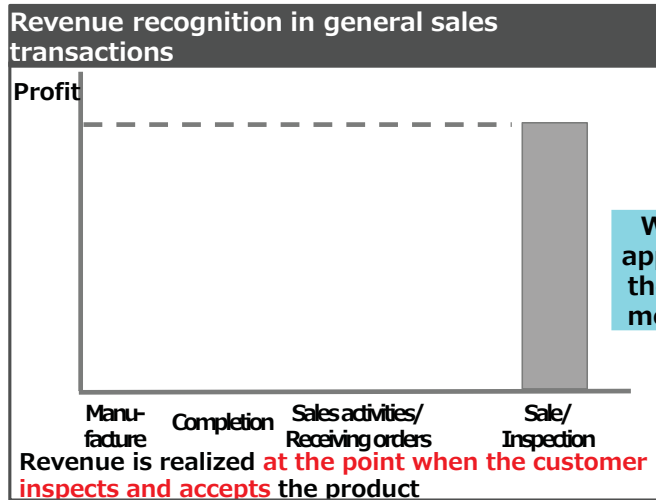
(4) Inventory valuation in the Semiconductor business

(5) Component transactions in the PC business

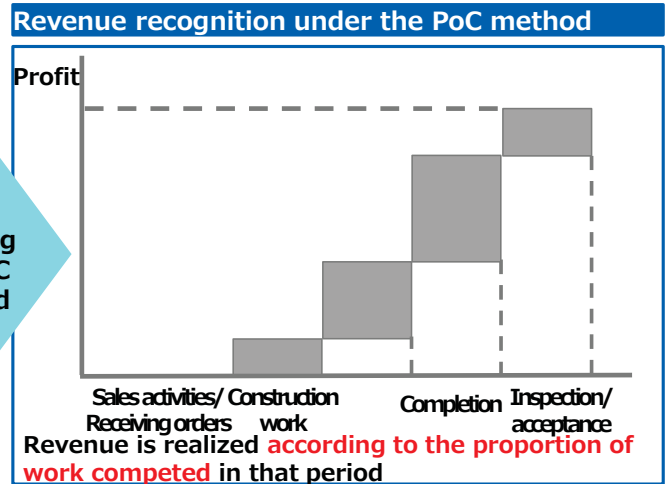
## (2) Percentage-of-completion method

### (i) What is the percentage-of-completion (PoC) method?

A method for recognizing profit for construction contracts (such as contracted construction work). The method recognizes contract revenue and contract costs for the portion of the work completed in that period even while the construction is still in progress.



When applying the PoC method



## (2) Percentage-of-completion method

### (ii) Requirements for, and problems in, applying the PoC method

#### Requirements for applying the PoC method

- (1) Total contract revenue
- (2) Total contract cost
- (3) Degree (%) of completion at end of period (actual incurred costs divided by total contract cost)

Must be reliable estimates

Note: If the total contract cost exceeds the total contract revenue, a provision is recorded for such excess amount.

If estimates are inappropriate:

#### Understating of total contract cost

- Causes (examples)
  - ✓ Total contract cost was calculated as a target figure that had a low degree of realizability (cost reduction was difficult)
  - ✓ Some costs that should have been included in the total contract cost were not recorded, due to additional construction work or the like

Delayed recognition of loss, etc.



- ( 1 ) Results of self-check
- ( 2 ) Percentage-of-completion method
- ( 3 ) Expenses recording in the Visual Products business**
- ( 4 ) Inventory valuation in the Semiconductor business
- ( 5 ) Component transactions in the PC business

### **(3) Expenses recording in the Visual Products business**

**The investigation into the appropriateness of accounting in the Visual Products business is ongoing**

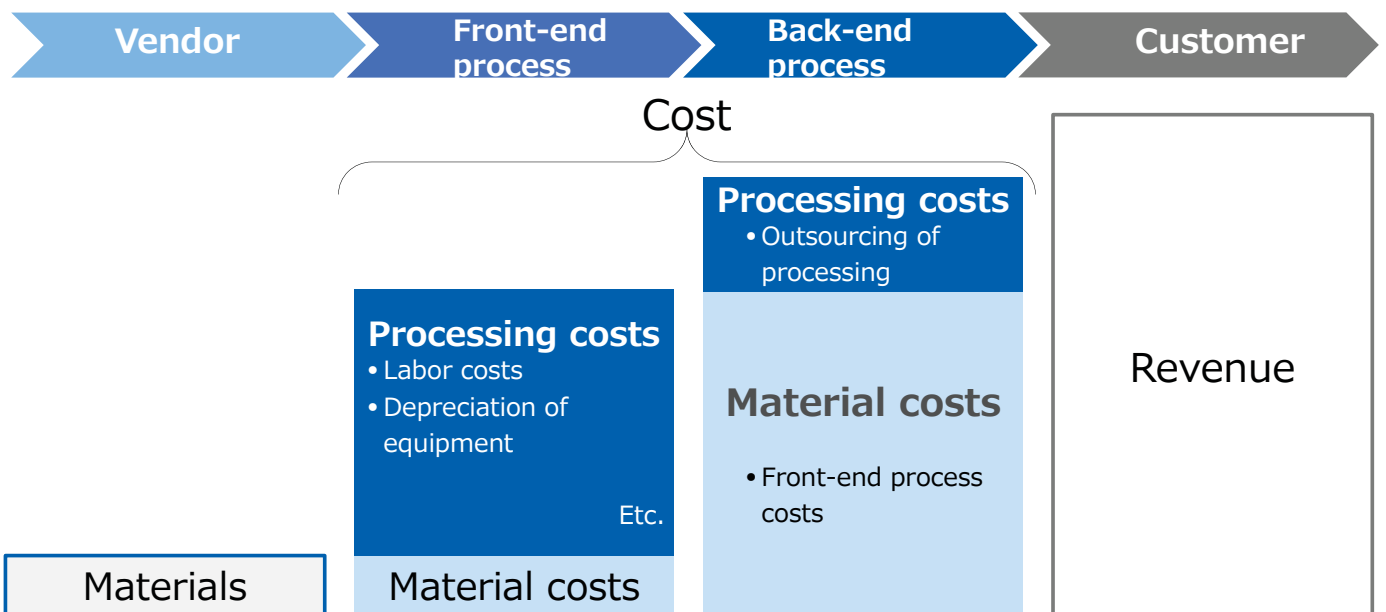
| <b>Topic</b>                            | <b>Details</b>   |
|---|--|
| <b>Timing of recording of provision</b> | <ul style="list-style-type: none"> <li>• Failure to record sales promotion expenses and advertising expenses and the like due to delays in customers making claims related thereto (Note)</li> <li>→ <b>Possibility that recording of certain expenses was deferred</b></li> </ul>                           |
| <b>Recording as future costs</b>        | <ul style="list-style-type: none"> <li>• Executing a discounting agreement with a vendor for that period, while at the same time executing an agreement to increase the purchase price for the following period onwards.</li> <li>→ <b>Possibility of preemptive recording of future profits.</b></li> </ul> |

Note In the course of the investigation, some of the transactions have been found to potentially not be problematic in terms of accounting.

- ( 1 ) Results of self-check
- ( 2 ) Percentage-of-completion method
- ( 3 ) Expenses recording in the Visual Products business
- ( 4 ) Inventory valuation in the Semiconductor business**
- ( 5 ) Component transactions in the PC business

## (4) Inventory valuation in the Semiconductor business

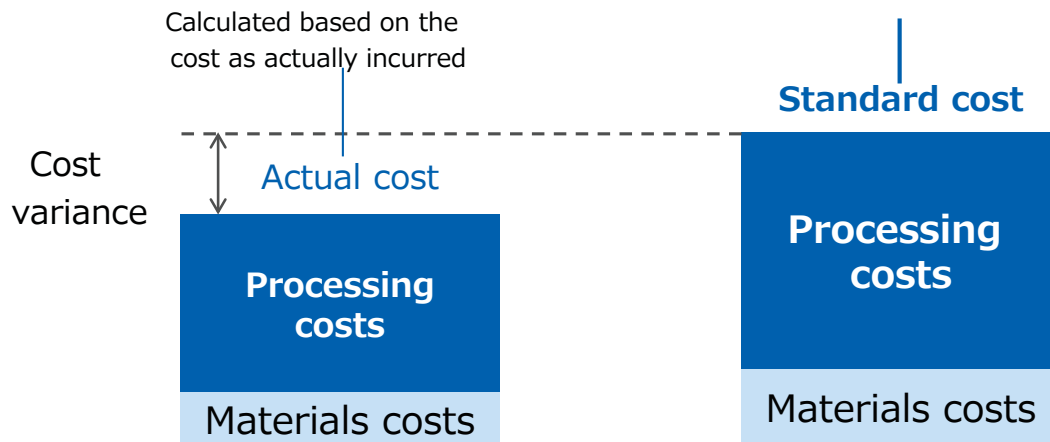
### (i) Front-end and back-end processes for semiconductors



## (4) Inventory valuation in the Semiconductor business

### (ii) What is "standard cost"

Calculated by estimating the cost necessary to produce a unit of product, and multiplied by the actual quantity.



- If a relatively large cost variance occurs, it is allocated to cost of sales and end of term inventory
- The standard cost must be subject to constant scrutiny as to its appropriateness, and revised to match the actual situation if a significant change arises

(1) Results of self-check

(2) Percentage-of-completion method

(3) Expenses recording in the Visual Products business

(4) Inventory valuation in the Semiconductor business

**(5) Component transactions in the PC business**

## **(5) Component transactions in the PC business**

- **The Company purchases parts and components from vendors in bulk and sells them to ODMs**
- **They are sold to ODMs at higher prices in order not to reveal the vendor price to ODMs**
- **Component transactions and finished product transactions are handled under separate contracts with ODMs**
- **The difference between the selling price for components sold to ODMs and the actual market price of the components can increase due to falls in the latter**
- **There is a possibility that the amount equivalent to the price of the components sold to the ODMs is coming back incorporated into the finished goods**