

March 15, 2016

Toshiba Corporation

Progress in Implementing of the Preventive Measures in Accounting Issues

TOKYO—Toshiba Corporation (TOKYO: 6502) today released “Improvement Plan and Situation Report,” a summary of the analysis of the causes of the company’s accounting issue, the preventive measures that it has taken, and the progress to date in their implementation. The report covers progress in implementing the preventive measures reported to Toshiba Rebuilding Initiative and FY2015 forecast released on December 21, 2015, and in the “Revision of FY2015 Consolidated Business Results Forecast and the Progress of the “Toshiba Rebuilding Initiative” dated February 4, 2016. Today’s announcement is a detailed update of actions taken since February 4, 2015.

The Company has already put in place an Accounting Compliance Committee charged with strengthening internal control and handling financial and accounting risk factors, including whistleblowing, and improving information sharing. Through the workings of the Committee, the company will improve and strengthen the effectiveness of its internal control mechanisms for accounting and further improve the decision-making process regarding information disclosure. In order to reinforce supervisory functions, the company will also augment the Internal Audit Division and appoint a full-time audit commissioner.

While implementing measures to prevent recurrence, several departments and subsidiaries recognized further instances of inappropriate accounting treatment (see Annex) that predate the results of the investigation first collated in September 2015. After consultation with the Audit Committee, their losses were accounted for appropriately in the financial statements for the second quarter (July-September period) and the third quarter (October-December period) of FY2015. The Company identified these accounting treatments through a newly established internal audit, whistleblowing, and other procedures, while implementing preventive measures to improve and strengthen its corporate governance system. However, the company deeply regrets that awareness of the need for prompt information disclosure has yet to reach all employees. Reflecting on this issue, the company as a whole will make every effort to further improve its internal controls and corporate culture.

Going forward, any doubtful items that may arise in future accounting will be discussed in the Accounting Compliance Committee. The company will further enhance internal control by sharing information within the department concerned and across departments, and conducting an inspection to search for any similar incidents.

(1) Strengthening Internal Control and Information Disclosure

In order to enhance internal control and to raise consciousness across the company, the Accounting Compliance Committee, headed by the President and Chief Executive Officer, will meet to collect information and evaluate risk factors that might cause financial statements to be improperly or not prepared or that do not provide adequate disclosure, due to inappropriate accounting treatment, and to discuss and decide on specific measures necessary to prevent risk factors associated with accounting.

Furthermore, in the event that any concerns in respect of accounting treatment come to light as the result of an internal audit or whistleblowing, any individual who has information relevant to the matter will be required to notify the Accounting Compliance Committee, which in turn will determine how to handle the matter and devise an action plan. Additionally, the Information Handling Supervisor, a member of the committee, will promptly collect information on risk, determine the need to disclose information, and if required, to also protect whistleblowers.

Through the activities of the Accounting Compliance Committee, Toshiba will continue to improve its internal control system and address individual risks appropriately. The committee will also strive to eliminate inappropriate accounting treatments in close cooperation with the related functions, including the Audit Committee and the Internal Audit Division.

(2) Appointment of a Full-Time Audit Commissioner

The Audit Committee is composed solely of independent outside directors with specialist knowledge in finance, legal affairs or business management. The company is seeking to strengthen the function of the Audit Committee with measures to reinforce the Audit Committee Office, and has decided to appoint a full-time audit commissioner in order to further beef up the Committee's ability to collect and analyze reports, as described below.

- Name: Ryoji Sato
- Date of appointment: April 1, 2016
- Reason for appointment: To improve the Audit Committee's information gathering ability
 - * Ryoji Sato currently serves as the head of the Audit Committee and is a member of the Nomination Committee.

(3) Strengthening of the Internal Audit Division

In reinforcing its internal audit system, the company has abolished the Corporate Audit Division and formed the Internal Audit Division directly under the Audit Committee. The

Internal Audit Division has an initial staff of 40, but now has approximately 100 staffs, including external experts. Instead of the advice-oriented audits provided by the former Corporate Audit Division, the Internal Audit Division places greater emphasis on audits of internal control, including accounting and J-SOX, in addition to conventional compliance inspections. In accounting audit, the Internal Audit Division is promoting use of outside experts so as to establish new accounting audit methods. In order to secure the effectiveness of internal audits, the company will secure the continual involvement of third-party experts and bring outside perspectives into internal audits.

Annex

Toshiba conducted a full investigation of inappropriate accounting found during the implementation of measures to prevent recurrences, including interviews with the persons concerned and examinations of their records and email by the Internal Audit Committee. The findings were reported to the accounting auditors, and, following consultation with the Audit Committee, impacts were accounted for in the financial statements for the second and third quarters of FY2015.

Overview of the Inappropriate Accounting Treatment (all values are pretax.)

Case 1

Overview	Labor costs required for the design of a system, which should have been booked under manufacturing costs, were booked under Inventory.
How it was found	Revealed in a fact-finding investigation in the division after an abnormal value was reported in-house. Details were found in an audit by the Internal Audit Division.
Period of occurrence	In and after the first half-year period of FY2013
Booked in	Q2 of FY2015
Impact (loss)	400 million yen

Case 2

Overview	Maintenance service expenses and parts costs, which should have been booked under manufacturing costs, were booked under inventory by a Japanese subsidiary.
How it was found	Revealed by an internal investigation following whistleblowing on bad inventory assets. Additional details, including accounting treatment, were found as a result of an audit by the Internal Audit Division.
Period of occurrence	In and after the second half-year period of FY2010
Booked in	Q2 and Q3 of FY2015
Impact (loss)	2.1 billion yen in Q2 of FY2015, and 400 million yen in Q3

Case 3

Overview	Prepaid outsourcing service expenses for system maintenance were
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	also booked as work-in-progress by mistake.
How it was found	Revealed by an internal investigation following whistleblowing on bad inventory assets. Additional details, including accounting treatment, were found as a result of an audit by the Internal Audit Division by a Japanese subsidiary.
Period of occurrence	In and after the second half-year period of FY2010
Booked in	Q3 of FY2015
Impact (loss)	900 million yen

Case 4

Overview	Although a negotiation on system introduction services was still in progress between a salesperson and a customer, it was booked under Sales in a Japanese subsidiary.
How it was found	Revealed as a result of an examination of outstanding accounts receivable. Details were discovered by an in-house investigation.
Period of occurrence	In the second half-year period of FY2014
Booked in	Q3 of FY2015
Impact (loss)	200 million yen

Case 5

Overview	A write-down for HDD products that failed a manufacturing test was not booked.
How it was found	A suspicion of an inappropriate accounting treatment was raised during the investigations of Cases 2 and 3. Details were found out as a result of an audit by the Internal Audit Division.
Period of occurrence	In and after the first half-year period of FY2010
Booked in	Q3 of FY2015
Impact (loss)	700 million yen

Case 6

Overview	Debts due to the return of HDD products by PC and other manufacturers were not booked till the next accounting period.
How it was found out	A suspicion of inappropriate accounting was raised during the investigations of Cases 2 and 3. Details were found as a result of an audit by the Internal Audit Division.

Period of occurrence	In and after the first half-year period of FY2010
Booked in	Q3 of FY2015
Impact (loss)	600 million yen

Case 7

Overview	The amount of parts purchased close to the end of an accounting period (after the 25th of each month) was not booked till the next period.
How it was found out	A suspicion of inappropriate accounting was raised during the investigations of Cases 2 and 3. Details were found as a result of an audit by the Internal Audit Division.
Period of occurrence	In and after the first half-year period of FY2010
Booked in	Q3 of FY2015
Impact (loss)	500 million yen

Measures Taken Against Personnel Involved

In addition to the reduction to the compensation of Executive Officers, the company accepted a proposal from Mr. Hironobu Nishikori, Executive Officer and Corporate Senior Vice President of Toshiba Corporation, for a 20% reduction in his monthly compensation for three months, and that six Executive Officers, etc., of subsidiaries be subject to 15% to 20% reductions for three months.

The company also took disciplinary measures against a total of 40 employees involved and employees with management and supervisory responsibilities.

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