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Toshiba Corporation

Toshiba Releases “Report on Improvements of Internal Management System”

Tokyo— Toshiba Corporation (TOKYO: 6502) has released a “Report on Improvements of Internal Management System*,” which explains measures the company implemented and the status of its improved internal management system to all shareholders and stakeholders. This move follows the decision by the Tokyo Stock Exchange (TSE) and Nagoya Stock Exchange (NSE) to cancel their designations of its stock as a Security on Alert and Security Under Supervision (Examination), effective October 12, 2017.

Following the September 15, 2015 designation of its stock as a Security on Alert by TSE and NSE, Toshiba undertook a comprehensive analysis of the causes of the accounting issue and defined measures to prevent recurrence, while investigating the historical background and structural factors underlying the causes.

Under a new management structure established in September, 2015, Toshiba has been implementing management with integrity. It has strengthened the supervisory function of top management by outside directors; strengthened the function of checks and balances by the CFO and the Finance and Accounting Divisions; strengthened internal control functions, including business process reform; and implemented measures to improve mindset and awareness of management and employees and to enhance the disclosure system and its operation.

After receiving a December 19, 2016 notice of continuation of the designation as a Security on Alert by the TSE and NSE, Toshiba implemented further measures to enforce internal compliance thoroughly and to strengthen monitoring of group companies, measures responsive to the reasons for the continuation. Toshiba also dealt with issues found in managerial decision-making processes. As a result, both stock exchanges cancelled the designations of the stock as a Security on Alert, as of October 12, 2017.

The report has three sections that cover (i) the background of the accounting issue; (ii) the recognition of the problems; and (iii) details of the measures to prevent recurrence, the status of implementation, and issues to be addressed to secure further improvements.

“Background to the Accounting Issue,” provides a chronological account of the details of the accounting issue, from the discovery of the problem and subsequent investigations, designation as a Security on Alert and improvements of internal management system, to

cancellation of the designation.

“Recognition of Problems” reports on the broad range of issues where Toshiba recognized problems, from its governance structure to communication of information. It analyzes the causes of the accounting issue, taking into account not only points made by the Independent Investigation Committee but also the historical background and structural factors. The analysis also focuses on the causes of problems in managerial decision-making processes and poor management at subsidiaries, which were recognized after the discovery of the accounting issue.

“Details of Measures Against Recurrence, Status of Implementation, and Issues to be Addressed for Further Improvements” covers the details of measures against recurrence, including reinforcement of the internal management system through reform of corporate governance, strengthening the monitoring and checking function, and reforming business processes; measures to change the mindset and awareness of management and employees alike, and to enhance operation of the disclosure system; the refinement of managerial decision-making processes and to improve monitoring of group companies. It also addresses issues where Toshiba currently recognizes that it must constantly seek better management systems and operations.

Since the designation as Security on Alert, Toshiba has devoted over two years to investigating and deploying internal reforms. The company’s renovation of its corporate culture demonstrated to both TSE and NSE that real improvements had been achieved in internal management systems, leading to their cancellations of the designation. However, Toshiba believes that continued implementation of measures for improvement and renovation, and new additional measures that reflects the status of the implementation, are necessary to truly regain the trust of all stakeholders. The company plans to promote further improvements and renovation and will continue to report on the status.

At the Extraordinary General Meeting of Shareholders held in March, 2017, Toshiba declared its determination to i. eliminate risk related to the overseas nuclear business; ii. swiftly recover and strengthen its financial base; and iii. strengthen the group’s organizational management.

In respect of i, the Chapter 11 filings by Westinghouse Electric Company and its group entities resulted in their deconsolidation. Subsequently, the maximum liability of the company’s parent guarantee has been agreed with the owners of the nuclear projects in the U.S. As a result, Toshiba believes that risk related to the overseas nuclear business has been eliminated.

In respect of ii., the sale of the Memory business is making progress toward closing.

In respect of iii., Toshiba sees cancellation of the designation as a Security on Alert as marking a fresh start toward further strengthening the group's organizational management.

The company is now determined to put every effort into regaining the trust of all the stakeholders and to maximize its corporate value. It will also disclose its future plans at in due course.

Toshiba expresses sincere apologies to its shareholders, customers, business partners and all other stakeholders for any concern or inconvenience and humbly asks for continued understanding and support.

* The series of reports related to the accounting issue and the company's effort to prevent recurrence, including this most recent report, are available only in Japanese.

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