

February 14, 2020
Toshiba Corporation

FOR IMMEDIATE RELEASE

**Notice Regarding Results of Investigation of Suspicious Transactions
at a Subsidiary, and Recurrence Prevention Measures**

TOKYO—On January 18, 2020, Toshiba Corporation (TOKYO: 6502; hereinafter “the Company”) announced that it had become aware that Toshiba IT-Services Corporation (hereinafter “TSC”) may have been involved in suspicious transactions over multiple years, the actual existence of which had not been confirmed at that time. The announcement also noted that the investigation was continuing. TSC is a wholly-owned subsidiary of Toshiba Digital Solutions Corporation (hereinafter “TDSL”), one of the Company’s wholly-owned subsidiaries.

The Company today announced a summary of the results of the investigation, and measures it will take to prevent any recurrence.

The investigation has concluded that the transactions were fictitious, instances of round tripping that did not involve any commercial goods or end-users. At the same time, the Company confirmed there was no evidence indicating that any employees of TSC, including a manager who was directly in charge of the transactions (hereinafter, “the Manager”), initiated the transactions, nor any evidence of TSC’s organizational involvement in the transactions. TSC, as one of contracting parties, was involved in the transactions that were initiated by a sales person at another company, without realizing that the transactions were illusory or circular. The details of the investigation follow.

1. Background and outline of investigation

At the end of November 2019, the Tokyo Regional Taxation Bureau made inquiries to TSC related to a tax audit of another company. The Company and TDSL responded by initiating the investigation on December 4, 2019. The investigation ran until February 5 this year during which time it clarified the facts, examined accounting procedures, and formulated proposals on measures to prevent recurrence.

The Company and TDSL appointed Katsumasa Suzuki, an attorney-at-law and a partner at Mori, Hamada & Matsumoto, and Takehisa Furuichi, a certified public accountant and a partner at Taiyo Grant Thornton, as outside members of the investigation team. They were charged with providing independent expertise and objectivity, drawing on their wide range of experience in investigations into false financial reporting. In all, in addition to Mr. Suzuki, Mr. Furuichi, 25 other lawyers and accountants professionals contributed to the

investigation.

The investigation team inspected evidence documents related to the transactions. They interviewed 15 TSC sales staff, including the Managers who handled the transactions. Investigators also searched the email accounts and PC data of six TSC sales staff for evidence indicating whether or not they were responsible for the transactions. This also included examining data on the Manager's mobile phones, for both business and private use.

2. Results of investigation

The investigation found, particularly through analyses of vouchers and checks of corroborating evidence by TSC and its customers, that the transactions were fictitious round trips. However, TSC executed them in the belief that they involved commercial goods sent directly from the vendor to the customer, and that there were end-users. TSC and other companies were positioned in the middle of the apparent distribution, between a certain vendor and a customer with which TSC had a history of normal business relationships. The investigation counted 24 deals during the period 2015 and 2019.

In addition, no evidence was found indicating that TSC, including the Manager, had initiated the transactions. All the evidence indicated that a sales person at another company initiated the transactions.

The investigation also required the Company Group companies to carry out transaction completion testing to examine whether or not other similar transactions existed in other companies. This confirmed that there were none.

3. Recurrence Prevention Measures

The Company recognized that TSC did not initiate the transactions, and was not intentionally involved in fictitious transactions. However, it also recognizes that there were weaknesses in TSC. For example, TCS should have carefully reconciled accounts related to the goods and services with evidence of delivery and inspection. It should also have taken effective preventive measures against the occurrence of such transactions. At the personnel level, TSC should have avoided over-reliance on certain individuals, and TSC managers needed to exercise all due professional care when handling such transactions.

The Company greatly regrets TSC's involvement in the transactions, which is contrary to the efforts of all Toshiba Group employees to strive together as one and to give their best efforts to executing measures that improve and strengthen internal control systems.

In response, the Company and TDSL are implementing recurrence prevention measures.

In principle, from now on TDSL group companies will only participate in transactions in which they create value by providing their own products directly to customers. TDSL will strengthen its internal control systems to ensure thorough check of quotations and work completion reports, and prepare more comprehensive guidelines and regulations regarding product sales and services. It will also secure more effective in-house monitoring and supervision systems, and train all employees in how to use its whistleblowing system. Furthermore, TDSL will also enhance its order entry process by strengthening its review systems and by increasing verification by procurement and other related divisions, reevaluate job rotation systems to avoid over reliance on certain individuals, improve employee educations, and change its method of performance evaluation.

At the same time, the Company will start considering how to assess and examine potential risks of false financial reporting resulting from causes outside the Company Group.

Descriptions of the transactions and the investigation are contained in the attached document.

4. Impacts on consolidated financial statement

As result of investigation, the Company has eliminated net sales of 21.5 billion yen and operating profit of 1.8 billion yen from the Digital Solutions segment of its consolidated financial statements for the third quarter of fiscal year 2019, ending March, 2020.

More specifically, the Company has eliminated FY2019 fictional transactions totaling 21.5 billion yen from net sales for the third quarter of its consolidated financial statements. It has also temporarily recorded 0.9 billion yen, the difference between net sales and costs, into a refund obligation account (current liabilities), as accounting treatments are unsettled at the moment among the parties involved in the transactions.

The Company has also eliminated an overstated profit of 0.9 billion before FY2018 by journalizing it into costs and refund obligation (current liabilities), for the reasons mentioned above. The Company does not restate past financial statements, in accordance with the accounting materiality principle.

There are also unsettled debts and credits in relation to part of the fictional transactions. The related parties have not decided how they will be handled. The company promptly announces any matters that require disclosure.

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This document contains forward-looking statements concerning Toshiba Group's future financial performance that are based on Toshiba's current assumptions and beliefs. Actual results are subject to a number of factors including those described in this document, and may differ significantly from Toshiba's assumptions.

February 14, 2020

Investigation Report (Summary)

Internal Investigation Teams of
Toshiba Corporation,
Toshiba Digital Solutions Corporation, and
Toshiba IT-Services Corporation

Mori Hamada & Matsumoto

Grant Thornton Taiyo Advisors Co., Ltd.

I. Summary of Investigation

1. Background of Commencement of Investigation

In November, 2019, in response to the discovery of suspicion at Toshiba IT-Services Corporation (“TSC”) that products supposedly sold by TSC were returning to suppliers through third parties (so-called circular transactions; hereinafter simply referred to as “circular transactions”), TSC confirmed that, in addition to these transactions, there was suspicion of circular transactions introduced by Company A, as well as suspicion of 26 transactions (the “Transactions”) for which no products actually existed (so-called illusory transactions; hereinafter simply referred to as “illusory transactions”)

2. Purposes of Investigation

The purposes of the investigation by the Investigation Team Members were as follows:

- (1) To investigate facts pertaining to the Transactions (particularly the actual existence of the subject matter and the principal involvement and awareness of TSC officers and employees if the Transactions were illusory and circular);
- (2) To investigate whether there were illusory or circular transactions similar to the Transactions;
- (3) To consider the accounting method in the consolidated financial statements of Toshiba in the foregoing cases;
- (4) To determine the causes and analyze the allocation of responsibility for the conduct of the Transactions; and
- (5) To propose measures to prevent recurrence of the Transactions.

3. Structure of Investigation

Considering the above 1, the parent company Toshiba Corporation (“Toshiba”), Toshiba Digital Solutions Corporation (“TDSL”), and TSC (Toshiba, TDSL, and TSC are collectively referred to as the “Companies”) decided to conduct an investigation (the “Investigation”), appointing personnel from each Companies’ related division as internal investigation team members, as well as outside experts with extensive experience in internal investigations, Katsumasa Suzuki, Attorney at Law, of Mori Hamada & Matsumoto, and Takehisa Furuichi, Certified Public Accountant, of Grant Thornton Taiyo Advisors Co., Ltd., as external investigation team members in order to ensure the objectivity and expertise of the investigation (together with the internal investigation team members, the “Investigation Team Members”).

The Investigation was conducted while reserving the possibility of shifting to a third-party committee, in accordance with the “Guidelines for Third-Party Committees Relating to Corporate Scandals” enacted by the Japan Federation of Bar Associations on July 15, 2010 (revised December

17, 2010), if it was confirmed in the course of the Investigation that the Companies' officers were possibly organizationally involved, but as a result of the Investigation, no such possibility was confirmed.

4. Overview of Investigation

(1) Investigation Period

The Investigation Team Members investigated from December 2019 to February 5, 2020.

(2) Investigation target period

Considering the first transaction of the Transactions was completed in November, 2015, the Investigation Team Members set the target transaction period from April, 2015 to December, 2019. And then, If the Investigation Team Members confirm the other transactions similar to the Transactions, the target period would be extended back as necessary,

(3) Investigation Target

The Investigation Team Members found the fact pertaining to the Transactions and other transactions similar to the Transactions (including the actual existence of the subject matter at TSC and TDSL group companies) and the principal involvement and awareness of TSC officers and employees if the Transactions were illusory and circular. Further, The Investigation Team Members considered the accounting method in the consolidated financial statements of Toshiba in the foregoing cases, analyzed the causes and the allocation of responsibility for the conduct of the Transactions, and considered the measures to prevent recurrence of the Transactions.

(4) Investigation Method

The Investigation methods are as follows:

(a) inspect and examine any materials relevant to the Subject Transactions

(b) interviews

The Investigation Team Members conducted interviews to 6 directors or employees in charge in α Department of TSC who might have participated in the Transactions, and 5 directors or employees of TSC who might have participated in the work flow of the Transactions. Further, for confirming involvement and awareness of TSC officers and considering the measures to prevent recurrence of the Transactions, The Investigation Team Members conducted interviews to 4 directors.

(c) investigate emails

The Investigation Team Members investigated emails of 6 directors or employees in charge in α Department of TSC who might have participated in the Transactions and datas in mobile

phones owned by the Manager of α Department of TSC (the “Manager”) by using digital forensics

(d) gather the information from suppliers and customers

The Investigation Team Members gathered the information from 5 suppliers or customers participated in the Transaction.

The Investigation Team Members exchanged each information with Company A, B, and C.

(e) Questionnaire survey in Toshiba group companies

The Investigation Team Members conducted the questionnaire survey to 28 Toshiba group companies, which apply the conditions as follows:

(i) CAGR¹ sold to external Toshiba group is over 10% from FY 2016 to FY 2018

(ii) over JPY 100 million per month sold to external Toshiba group

II. Facts Determined from Investigation

The facts determined as a result of the Investigation are as follows.

1. Overview of the Transactions

(1) Overview of the Transactions

The Transactions were called “Company A collaboration transactions” within TSC, because they were recognized as being transactions to enter the flow of product sales to government customers led by Company A, at the introduction of Sales person X of Company A. TSC’s understanding was that while the Transactions were somewhat low in margin compared to TSC’s usual transactions, one purpose of the Transactions was to promote a mutually beneficial relationship with Company A because they were procuring a certain volume of products and the like from Company A in ordinary transactions other than the Company A collaboration transactions.

During the period covered by the Investigation, from November 2015 to July 2019, TSC received 24 orders for the Transactions (total sales amount JPY 43.52 billion). As one of the 24 orders was divided into three orders for the same counterparty, there are a total of 26 transactions.

These 24 orders came in a wide range of scale, from JPY 12.5 million to JPY 9.8 billion, and were for the sale of products and the like. In all 26 transactions in question, the products concerned were to be directly shipped from the supplier to a recipient designated by the customer.

Several of the Transactions also included terms for the supply of services such as responding to inquiries corresponding such Transactions.

(2) Fluctuations in the Transactions

The Transactions commenced in November 2015, and approximate sales were JPY 1.54 billion in

¹ CAGR: Compound Average Growth Rate

FY 2015, JPY 1.678 billion in FY 2016, JPY 12.367 billion in FY 2017, JPY 6.417 billion in FY 2018, and JPY 21.526 billion in FY 2019 (see table below).

(Unit: JPY millions)

Fiscal Year	Number of Transactions	Sales	Cost of Sales	Gross Income
FYE March 2016	2cases	1,540	1,460	80
FYE March 2017	6 cases	1,678	1,583	95
FYE March 2018	9 cases	12,367	11,873	494
FYE March 2019	3 cases	6,417	6,167	250
FYE March 2020	6 case	21,526	20,622	904
Total	26 cases	43,528	41,705	1,823

2. Actual Existence of the Transactions, Presence of Circular Transactions, Etc.

(1) Actual Existence of the Transactions

Considering the monetary scale of the Transactions, and the fact that TSC did not frequently conduct direct delivery Product Sales (transactions in which the concerned products are directly sent from the supplier to the designated place of delivery without going through TSC; the same applies below), if they were actual transactions, then to mitigate transactional risks the actual existence of the products would be confirmed and objective evidence would be prepared to support the same. However, as stated above, neither TSC nor any of its suppliers or customers confirmed the actual existence of the products, and no objective evidence of such existence has been confirmed.

Considering the above, there is strong suspicion that the Transactions were illusory, and the Investigation has determined, from a conservative point of view, that the Transactions were illusory.

(2) Presence of Circular Transactions

After receiving the results of investigations conducted by certain other Parties to the Transactions following the tax investigation, TSC determined that circular transactions including TSC were conducted from 2015 to 2019.

In light of the fact that (1) The Investigation team members conducted their own verification of these investigation results, comparing the various evidence of the Transactions at TSC, and there is no inconsistency; (2) it is strongly suspected that the Transactions were illusory transactions; (3) as described in Section (1) above, in the Product Sales that were part of the Transactions, neither the Company nor the customers have retained evidence of the actual existence of the Transactions such

as delivery notes, delivery slips, and inspection notes with the confirmation seal of the government agency recognized by the Company as the end user; and (4) several transactions with undetermined end users were included and the like, it was strongly suspected that the Transactions were circular and, the Investigation has determined that all of the Transactions were circular transactions.

3. Participation, Knowledge, Etc. of TSC Officers and Employees in Illusory and Circular Transactions

Based upon the evidence discovered in the Investigation, it cannot be determined that the Manager or other TSC officers or employees were principally involved in the organization of illusory or circular Transactions or conspired with Sales person X of CompanyA in the organization of the Transactions.

The Investigation did not find any direct evidence that The Manager was aware that the Transactions were illusory or circular. However, the Manager should have ordinarily been suspicious that the Transactions were illusory or circular, and he can be determined to have neglected the duty of care that should have been fulfilled in his position.

In addition, we were unable to determine that officers or employees of TSC other than the Manager were aware that the Transactions were illusory or circular based on the evidence found in the Investigation.

4. Existence of Illusory or Circular Transactions Similar to the Transactions

TSC and TDSL Group conducted a questionnaire of the surveyed portion of the Toshiba Group, in addition to the following investigation, in order to verify whether transactions similar to the Transactions exist. These investigations found no evidence of transactions suspected to be illusory or circular transactions similar to the Transactions at TSC, TDSL Group, or the surveyed portion of the Toshiba Group.

(1) Investigation of Actual Existence of Similar Transactions at TSC

The following investigation was conducted as to the actual existence of 215 transactions transacted from April 1, 2015 through September 30, 2019 that (i) were introduced by Company A in which the supplier or customer was a supplier or customer involved in the 26 detected Transactions; and (ii) had a transaction amount of no less than JPY 10 million.

- With regard to Product Sales transactions: (i) checking whether the recipient listed in the order matched the recipient to which delivery was directed; (ii) checking receipts and delivery slips from the recipient; (iii) checking work logs for cases involving installation or other work; and (iv) checking end user inspection notes.
- With regard to services transactions (including maintenance): (i) checking maintenance and support

agreements; and (ii) checking the support order record list against the contracts.

(2) Investigation of Actual Existence of Similar Transactions at TSC and TDSL Group

We conducted an investigation, in a similar manner as provided in Section (1) above, as to the actual existence of 191 transactions (of which 67 were at TSC) extracted from 3,966,812 transactions accrued at TSC and TDSL Group from April 1, 2015 through September 30, 2019 (of which 2,904,274 were at TSC) in which (i) the customer was an SJer² or was through a leasing company, (ii) the margin (Sales / Cost of Sales) was no greater than 105%, and (iii) the transaction amount was no less than JPY 10 million on a per-number basis (but excluding tendered transactions and Toshiba Group internal transactions).

III. Impact on Toshiba Corporation Consolidated Financial Statements from Improperities Discovered in Investigation

1. Illusory Transactions Arising and Accrued in Prior Consolidated Fiscal Years

The sales, cost of sales, and gross income accrued in each of the prior consolidated fiscal years from the illusory transactions is as follows.

(Unit: JPY millions)

Fiscal Year	Number of Transactions	Sales	Cost of Sales	Gross Income
FYE March 2016	2cases	1,540	1,460	80
FYE March 2017	6cases	1,678	1,583	95
FYE March 2018	9cases	12,367	11,873	494
FYE March 2019	3cases	6,417	6,167	250
Total	20cases	22,002	21,083	919

While it is ordinarily necessary to cancel out the sales and cost of sales from illusory transactions, a revision of past fiscal year earnings will not be made in light of the transactions having little materiality in their impact on the consolidated financial statements of Toshiba for each consolidated fiscal year, as provided in the following table.

(Unit: JPY millions)

Fiscal Year	Consolidated Sales	Impact Rate	Consolidated Operating Income/Loss	Impact Rate

² SJer: System Integrater

FYE March 2016	4,346,485	0.0%	(581,376)	0.0%
FYE March 2017	4,043,736	0.0%	96,537	0.1%
FYE March 2018	3,947,596	0.3%	86,184	0.6%
FYE March 2019	3,693,539	0.2%	35,447	0.7%

The profit of JPY 919 million accrued in past fiscal years will be transferred to a provisional payment (other current liabilities) and accrued as cost of sales in the third quarter, as it is inappropriate to recognize income while the amount to be realized by each company in relation to the Transactions is uncertain.

(Unit: JPY millions)

Fiscal Year	Debited Item	Amount	Credited Item	Amount
FYE March 2020	Cost of Sales	919	Provisional Payments	919

3. Illusory Transactions Arising and Accrued in Current Consolidated Fiscal Year

The sales, cost of sales, and gross income accrued in the current consolidated fiscal year from the illusory transactions is as follows.

(Unit: JPY millions)

Fiscal Year	Sales	Cost of Sales	Gross Income
FYE March 2020	21,526	20,622	904

For illusory transactions arising and accrued in the current consolidated fiscal year, the sales and cost of sales will be cancelled out in the third quarter, and the balance (JPY 904 million) transferred to a provisional payment (other current liabilities) for reasons similar to those applicable to past consolidated fiscal years.

(Unit: JPY millions)

Fiscal Year	Debited Item	Amount	Credited Item	Amount
FYE March 2020	Sales	21,526	Cost of Sales	20,622
			Provisional Payments	904

IV. Cause Analysis

1. Deficiencies in Internal Rule Provisions and Operations

In the Investigation, several items of evidence were found that showed the possibility of illusory and circular transactions (for example, the delivery destination on the order from the customer being Company A, despite the fact that Company A was TSC's supplier). However, at the time the

Transactions were performed, this evidence was not detected as being problematic, and this was partially due to deficiencies in internal rule provisions and operations at TSC. If these deficiencies did not exist, and the evidence was appropriately confirmed as part of the workflow, there is a high probability that the possibility of the Transactions being illusory and circular would have been discovered at an early stage.

2. Inadequate Internal Checks

One of the reasons the fact that the Transactions were illusory and circular was overlooked is inadequate internal checks. Specifically, there were inadequate checks at the Transaction Review Committee and Order Acceptance Policy Committee, inadequate checks by the procurement and production divisions against the sales divisions, and inadequate monitoring and supervision by the managers overseeing the Public Sector Sales Division.

3. Reliance on Individual as General Manager of Public Sector Sales Division

Since internal rotation of the General Manager of α Department had not been conducted for a long time, The Manager served as General Manager of α Department for a long time. It is said that as a result of this, the business of α Department became reliant upon the Manager, his authority became stronger, and others became unable to interfere with the terms of the Transactions. It is believed that the concentration of authority in The Manager as General Manager of α Department delayed the discovery that the Transactions were illusory and circular.

4. Failure of Crisis Consciousness and Justification at TSC Regarding Performance of the Transactions

Based on the Investigation, the counterparties to the Transactions other than Company A also included several major businesses in the system integration industry, such as Company B, and the situation was such that TSC had a high level of trust in the Transactions. In addition to this, it is said that while the Transactions progressed, a transactional track record built up with Company A and Company B and the Transactions occupied a considerable portion of TSC's sales in FY 2018 and FY 2019, so Company A and Company B were recognized as important counterparties within TSC.

It is believed that this situation was the cause for TSC failing in its crisis consciousness regarding the performance of the Transactions, and going ahead with the Transactions. As a result of this, it is probable that TSC became less aware of the monitoring of the Transactions, delaying its discovery that the Transactions were illusory and circular.

5. Motives and Justification for the Manager's Work Related to the Transactions

Since the Transactions were transient transactions that could not reasonably be expected to

continue, they were not considered in the budget for the TSC Group. Therefore, we can say that pressure on the Manager to achieve the budget was not a factor driving the Transactions.

It is thought that the Manager understood that he was proceeding with the Transactions in order to improve his personal evaluation as a general manager (including for bonus calculations) and to improve the performance evaluation of the organization, to which α Department belongs, within TSC, and it is presumed that this was an element in his self-justification for performing acts that lacks a duty of care in terms of responsibility such as preparing falsified evidence at Company A's request.

V. Proposals to Prevent Recurrence

1. Restrictions on Direct Delivery Transactions

In the future, TSC and TDSL should not directly deliver products other than Toshiba Group products from suppliers to customers, or enter into transactions other than to provide TDSL Group services (however, this does not apply in transactions for which TDSL Group itself has won a bid and the end user is clear, for which the existence of the product can be internally confirmed, or for licensing where they are themselves the licensor or sublicensor).

2. Preparation and Strict Enforcement of Internal Rules

One cause of the illusory and circular nature of the Transactions being overlooked was inadequacy in the provisions and operation of internal rules. Therefore, TSC should prepare and strictly enforce various internal rules of product sales transactions and service transactions so that we can prevent illusory transactions and circular transactions in advance and discover them easily in an early stage.

Furthermore, TSC's lack of crisis consciousness regarding the performance of the Transactions and justification for proceeding with the Transactions weakened the awareness of the Transactions in the context of TSC's internal controls. A system that does not permit such reduced awareness in the context of internal controls should be implemented through the preparation and strict enforcement of various internal rules.

3. Enhanced Check Functions

Since one of the reasons for the Transactions being overlooked as illusory and circular nature was inadequate internal checks, it is necessary to strengthen checks by the Transaction Review Committee and Order Acceptance Policy Committee, checks by other divisions against the sales divisions, monitoring by the Board of Directors, and the like.

4. Prevention of Reliance on Individuals Through Regular Personnel Rotation

It is necessary to prevent reliance on individuals by performing regular personnel rotations for sales, production, and other division managers who spend long periods of time in the same position.

5. Enhancing Officer and Employee Training

Due to the fact that one cause of the illusory and circular nature of the Transactions being overlooked was insufficient knowledge of staff regarding illusory and circular transactions, increased awareness of compliance and supplementation of employees' knowledge should be sought through regular compliance training that includes education regarding case studies of illusory and circular transactions, examples of misconduct and punishments, and the like.

Furthermore, considering that for the Transactions, personnel in managerial positions left workflow processes and the like to their staff, and there was inadequate monitoring by officers through the Board of Directors, it is necessary to increase awareness of management and oversight responsibilities by conducting training for managerial staff regarding the subordinate management and approval methods required from managerial staff, as well as training of officers.

6. Revising Internal Evaluation System

Going forward, it is necessary to consider revising the internal evaluation system so that employees can be evaluated from multilateral viewpoints, such as by introducing evaluation based compliance initiatives and ability to manage and supervise subordinates.

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